canada development corporation annual report 1977

Cover

Based on the motif of a CDC Class B preferred share certificate, the cover design replaces the certificate illustrations with corresponding photographs of CDC companies in action.

The Corporation's Objectives

To develop and maintain strong, Canadian controlled and managed corporations in the private sector.

To widen the investment opportunities open to Canadians.

To operate profitably and in the best interests of all the shareholders.

Contents

Book One

Book Two

HEAD OFFICE: 2272 Granville Square, 200 Granville Street, Vancouver, British Columbia, V6C 1S4.

Pour obtenir l'édition française du présent rapport, on est prié d'écrire au Secrétaire, Corporation de développement du Canada, Suite 2272, 200 rue Granville, Vancouver, Colombie-Britannique, V6C 1S4

Canada Development Corporation Annual Report 1977

Highlights

	1977	1976
	(millions of dollars)	
Total revenue	$ 724.1	$ 578.0
Research & development expenditures	24.0	17.0
Interest costs	29.2	18.6
Equity in earnings of other companies	10.9	12.1
Net income	23.8	21.7
Balance sheet — working capital	69.4	89.5
— fixed assets	1,013.4	764.6
— total assets	2,066.1	1,586.9
— capitalization	713.4	708.4
— return on common equity	1.4%	1.1%

Operating income up 27%; net earnings up 10%; assets now over $2 billion

Petrosar, North America's first integrated refinery-petrochemical plant, becomes operational

Health Care group expands Montreal laboratories, acquires top-quality facilities in the U.S.

Research and development expenditures up 41% to $24 million

CDC Oil & Gas improves cash flow, steps up exploration in Canada and expands into Louisiana

Decline in base metal prices reduces Texasgulf earnings

New Winnipeg-based investment company launched to develop medium-sized enterprises

Polysar begins operating world-scale styrene plant, as pictured on this page

Corporate Structure

Canada Development Corporation

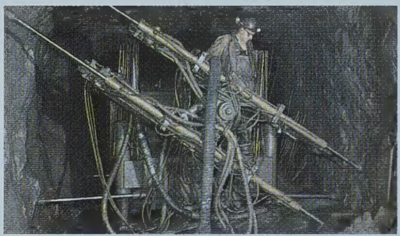
Developing and maintaining strong Canadian controlled and managed corporations in the private sector.

Assets
$2,066.1 million

PETROCHEMICALS — Assets $1,314.0 million

Polysar Limited — 100%
International manufacturer of synthetic rubber, latex, chemicals and plastics

Petrosar Limited — 60%
Canada's first integrated refinery-petrochemical plant.



MINING — Assets $367.9 million
Texasgulf Inc. — 30.5%
A producer of base metals, chemicals, oil and gas with worldwide production and exploration activities.

OIL & GAS — Assets $187.3 million
CDC Oil & Gas Limited — 100%
Exploration and production of oil and gas in western Canada, the Northwest Territories and Louisiana.

HEALTH CARE — Assets $108.7 million
Connlab Holdings Limited — 100%
Research, manufacture and marketing of biological and pharmaceutical products worldwide.

VENTURE AND EXPANSION CAPITAL — Assets $12.3 million
CanWest Capital Corporation — 35%
Venturetek International Limited — 32%
Innocan Investments Ltd. — 37%
Ventures West Capital Ltd. — 49%
Investors providing equity financing to small and medium-sized businesses at the conceptual or development stage.

OTHER — Assets $75.9 million
Cash and short-term investments held by CDC.

- *Asset values represent book values at December 31, 1977 without deduction of liabilities.*
- *Percentages represent CDC direct and indirect ownership position.*

Report of Directors

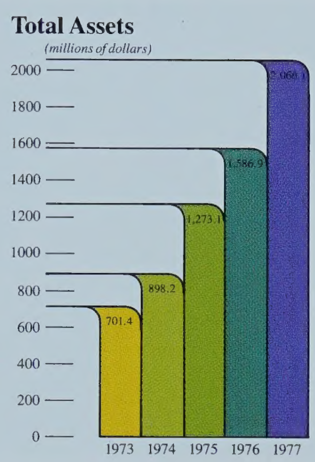
To Our Shareholders:

Your Company has evolved during its six years of operations into a strong and diversified enterprise with business interests across Canada and in many countries of the world.

CDC became a $2 billion company in 1977. This growth since inception in 1972 reflects our mandate to broaden investment opportunities for Canadians by channeling their savings, as shareholders, into profitable Canadian-based ventures which offer above-average growth potential and earnings.

Our philosophy is to be an equity investor seeking a controlling position in selected underlying companies. We help to develop Canadian managerial and entrepreneurial talents and to promote Canadian opportunities in international markets.

We are prepared to take a longer-term view in creating or developing these viable Canadian-owned and Canadian-controlled corporations, although the discounted returns on our investments must be high enough to reward our shareholders in proportion to the risk being assumed.



Petrosar Limited is the first integrated refinery-petrochemical plant in North America, and a major new Canadian source for petrochemical feedstocks.

Corporate Profile

Today, CDC has a solid income-producing portfolio of high potential investments in petrochemicals, mining, venture capital, oil and gas and health care.

While our primary emphasis is on investment in Canadian-based companies, we have also acquired an international character in the process of developing these companies to their full potential. Our companies market in more than 80 nations. Several of the group operate in the United States, Europe, the Far East, South America and Australia. These global activities add importantly to our income and cash flow and strengthen our Canadian base.

This world-wide income stream has enabled your Company to rise to a position of prominence in original research and development for many products and processes, ranging from petrochemicals to

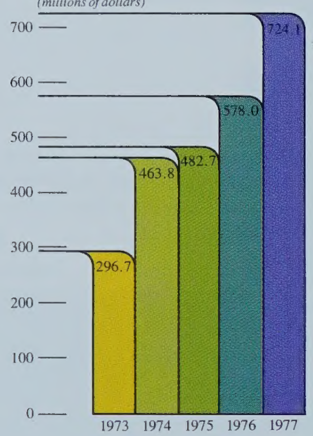
pharmaceuticals. Last year, the group increased its R&D investments by $7 million to more than $24 million. This figure does not include the many millions of dollars committed to exploration and development in the natural resources and energy supply fields.

We will maintain and increase this high level of research and development in 1978 as we believe the continuing creation of new products and services is an essential part of expanding the markets of CDC's companies at home and abroad.

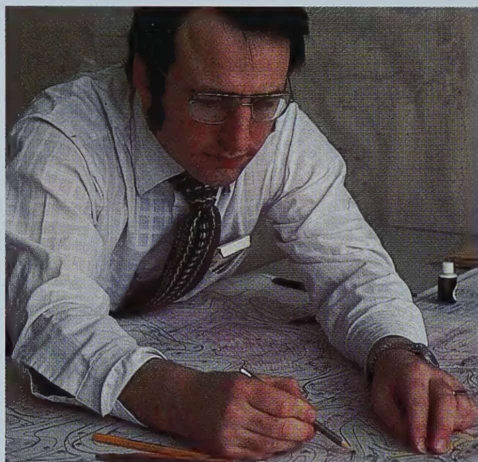
CDC companies collectively employ over 20,000 people worldwide and are important employers of scientific, technical and professional graduates.

CDC will continue to play a major role in ensuring that selected enterprises throughout Canada are able to fulfill their long-term growth objectives by providing them with financial and managerial assistance.

Revenues
(millions of dollars)



The skills and experience of our employees are helping CDC build a strong Canadian presence in major industries.



1977 in Review

The later sections of this Report detail the accomplishments and setbacks of 1977 and the status and outlook for each of CDC's companies. At this point, however, we would like to touch on some of the highlights.

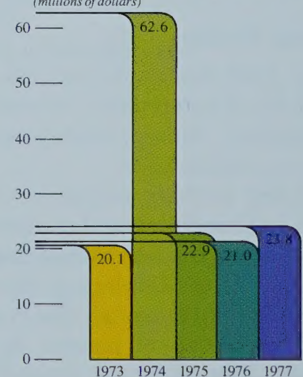
We made significant progress in many areas towards our long-term growth and earnings objectives. In the petrochemicals sector, for example, the huge Petrosar complex in Sarnia successfully came on stream last year. Polysar began operation of Canada's first world-scale styrene plant. The Connlab group began expansion of its scientific laboratories in Montreal and acquired a top quality biological facility in the key United States market. CDC Oil & Gas stepped up its exploration activities, much improved its earnings and cash flow, and acquired a working interest in a major property in Louisiana. We also took an investment position in a new enterprise, CanWest Capital Corporation, Winnipeg, which will play an active management and investment role in medium-sized companies offering sound growth potential. Our venture capital companies continue to develop their investment portfolio and now control assets worth over $100 million.

Last year also produced some setbacks and disappointments. The Canadian Arctic Gas consortium did not receive government approval for its Mackenzie Valley pipeline proposal, requiring us to write off our $2 million investment. Our attempt to acquire a Montreal-based food processing company during the year was unsuccessful. And the sharp decline in world base metal prices reduced our earnings from Texasgulf, though that company demonstrated commendable management skill in maintaining profitability and employment.

On balance, however, 1977 was a positive year and we do not expect the special adverse factors of the last 12 months to recur. Our consolidated companies achieved significant improvements in operating income which rose to $37.6 million in 1977, compared with $29.7 million the previous year. This growth would have resulted in much better CDC earnings without the nonrecurring items we noted above.

In fact, net earnings increased last year by only 10% to $23.8 million. Net income per common share increased from 14 cents to 21 cents. These earnings, while large in absolute terms, are still too low and reflect the high proportion of assets invested in new and developing situations, as well as the depressed state of base metals markets in 1977. However, we believe our objective of moving toward a 15% return on common shareholders' equity by 1981 remains realistic and attainable due to the fundamental strength of the assets in our portfolio.

Net Income
(before extraordinary item)
(millions of dollars)



The Outlook

The basic trend of our consolidated operating earnings is likely to gain momentum once we receive the full benefits of our past commitments to long-term projects, particularly in the mining and petrochemicals sectors.

While it is impossible to be precise about the timing of a turnaround in the cyclical international metal markets, a better balance between supply and demand for copper and zinc is developing and should enhance earnings during the next few years.

Petrosar, which began amortizing its preproduction cost in January, will be a drag on earnings during 1978, but will progress toward becoming a major income producer in the early 1980s. Polysar doubled its earnings in 1977 and should show significant income gains during the next few years, though 1978 is likely to be a year of only modest improvement.

In venture capital we look forward to realizing several capital gains as maturing businesses are divested by our underlying companies. The health care companies, after incurring a loss in 1977, are now operating profitably, and we expect this trend to continue. CDC Oil & Gas is expected to make further gains in 1978, continuing its important contribution to your Company.

Through acquisitions, we plan in 1978 to bring additional balance to our portfolio by diversifying into profitable industries in secondary manufacturing. This will offset the cyclical nature and capital-intensive character of some of the sectors in which we are already substantial investors. We are thus examining investment opportunities in high-growth areas of food processing and electronics. We are also actively pursuing possibilities in other aspects of the energy supply industry in Canada.

Depending on the timing of acquisitions, conditions in the financial markets and other relevant factors, your Company may carry out an additional public financing in the latter part of the year or early in 1979. We believe the CDC concept has proved itself and we would like to see more Canadians participating in its expansion and growth.

In more general terms, despite prevailing pessimism, we believe that Canada can make significant economic progress this year and much improve its international trade balance. We believe that the measures taken by governments around the world have provided a climate in which Canada can do much to capitalize on its strength and realize its economic potential more fully.

Directors, Staff and Shareholders

We would like to express our warmest thanks to Harrison McCain, who resigned from the Board late last year owing to other business responsibilities. He made a valuable and dynamic contribution to the Company's affairs.

We would also like to express our grateful appreciation to the staff at all levels of CDC's group for their dedication and enthusiasm in making your Company one of Canada's most important and exciting enterprises.

And last but far from least, we thank you the Shareholders, for your support and encouragement in joining with us in the process of building CDC into an ever stronger and more vital Canadian corporation operating in the private sector of the economy. We shall continue to do our utmost to make CDC a profitable and rewarding investment for you.

Innotech Aviation services aircraft in airports from St. John's, Newfoundland, to Vancouver, B.C.

Respectfully submitted on behalf of the Board,

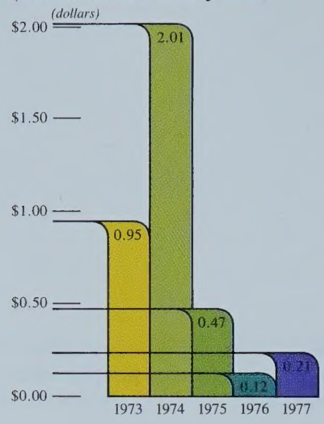
A. John Ellis
Chairman

H. Anthony Hampson
President and Chief Executive Officer

April 6, 1978

Financial Review

Earnings Per Common Share
(before extraordinary item)



Clean and efficient packaging facilities are vital to quality health care products.

Your Company derives income from two streams. One is the consolidated revenues from the sales and services of underlying companies in which we have more than a 50% interest. These are in the petrochemical, health care and oil and gas sectors. In 1977, these revenues totalled $724 million, a significant increase over 1976 revenues of $578 million.

The other income stream is from our equity share in the earnings of companies in which we have less than a 50% interest. These are in the mining sector and venture capital field. Our share of Texasgulf earnings in 1977 was $10.9 million, a $3.2 million shortfall from the previous year. Venture capital investments produced a $25,000 net loss — a substantial improvement from the $2 million loss recorded in 1976. Furthermore, the underlying value of the investments of the venture capital group expanded significantly.

The increased consolidated revenues and reduced equity earnings, along with other factors, resulted in a net income for the CDC of $23.8 million in 1977, a 10% improvement over the $21.7 million earned a year earlier.

After payment of dividends on preferred shares, earnings per share, calculated on the common stock outstanding at year-end, were 21 cents, as against 14 cents per share at the 1976 year-end.

Among the factors affecting our consolidated net income were a $6.8 million foreign exchange translation gain (with about half of it derived from European operations), compared with a $4.4 million loss in 1976; and a $7.8 million allowance for unusual items, a substantial increase over the $429,000 figure for 1976. These unusual items were a $2 million write-off of our investment in the now defunct Canadian Arctic Gas consortium, a $3.4 million write-off in other companies, and a $2.4 million write-down of land held for resale to the net realizable value in weakening markets.

Before deducting these unusual items,

our net income was $31.6 million, a healthy gain over the $21.4 million comparable figure for 1976.

The contributions by our various investment sectors to the CDC's consolidated net income were as follows:

	1977	1976
	(millions of dollars)	
Petrochemicals	**$10.2**	$ 3.4
Health Care	**(1.1)**	0.6
Mining	**10.9**	14.1
Oil and Gas	**10.4**	7.7
Venture Capital	**—**	(2.0)
CDC	**(6.6)**	(2.1)
	$23.8	$21.7

The operations of the various investment sectors, including CDC's own operations, are detailed in this Annual Report.

CDC had accumulated consolidated retained earnings of $146.6 million at year-end, compared with $90.1 million a year earlier. The major part of this increase was due to a transfer to retained earnings of the excess of book value over cost of Polysar at the time of our original acquisition.

Working capital was reduced by $20 million to $69.4 million, largely due to expanded investments in petroleum and natural gas properties.

Perspective

A one-year review of changes in financial performance does not really provide the shareholder with sufficient insight into a company's underlying position and potential returns. Consequently, this year we have included with the Annual Report a separate book containing detailed comparative financial data over a six-year period so that shifts and trends can be identified and analyzed.

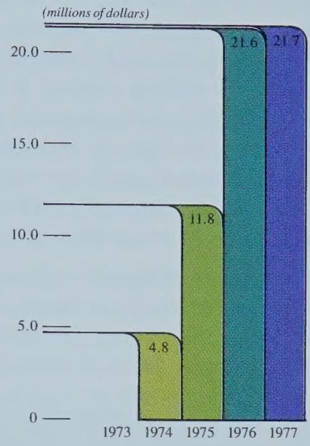
The Company's portfolio has, of course, undergone significant changes since we became operational in 1972. By the end of 1973, 70% of our portfolio was devoted to the mining sector, 17% to petrochemicals, 10% to health care, and 3% to venture capital.

By the end of last year, however, our broadened portfolio had reduced the dominance of mining to 52% of our total investments, with petrochemicals expanded to about 22% and oil and gas (a new investment sector for us in 1976), representing approximately 17%, health care and venture capital reducing to 7% and 2% respectively.

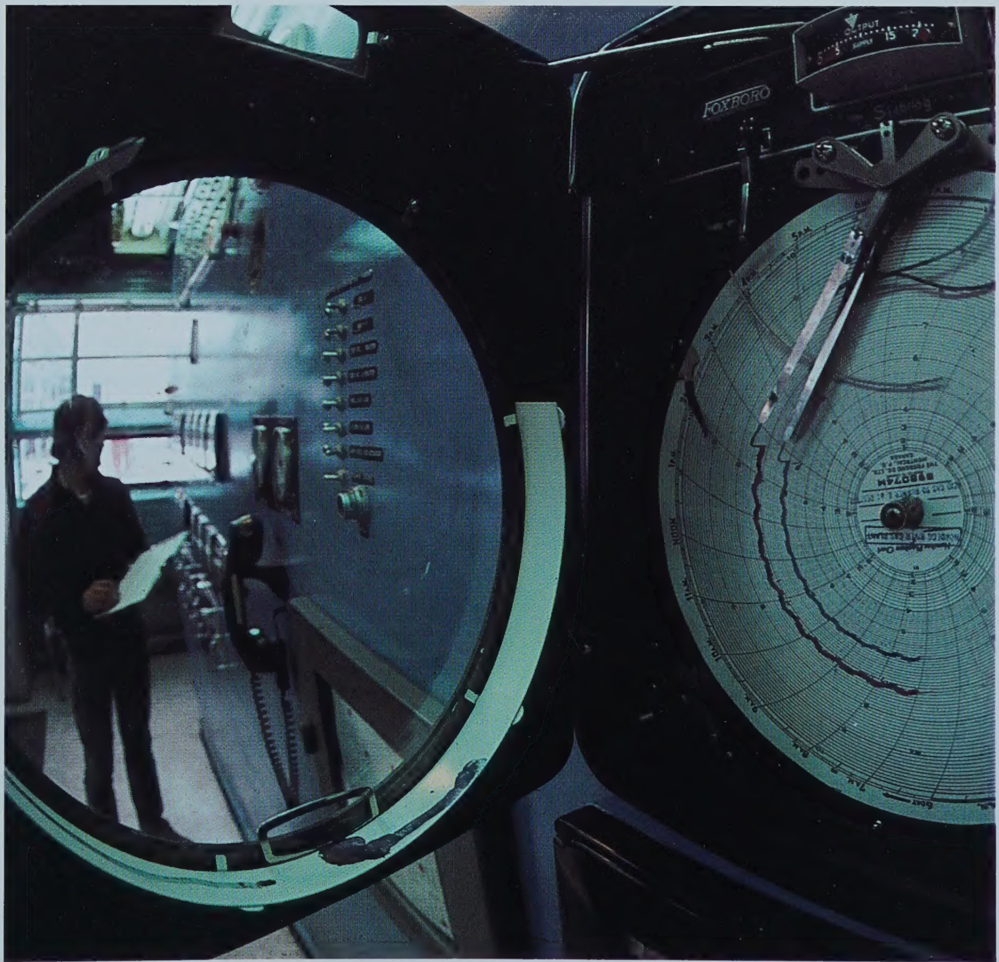
As we look ahead five years, we expect mining to diminish even more as a proportion of our total investment portfolio (to about one-third), with oil and gas expanding further. Various new investments will bring greater balance by occupying about one-third of our investment portfolio.

To date, our return on equity has been low because such a large portion of our assets have been placed in new and developing situations. During the next five years, however, the $600 million invested in our major enterprises should contribute substantial income to the CDC.

Dividends (paid to shareholders of CDC and to minority shareholders of subsidiaries)



At the CDC Oil & Gas plant in Nordegg, removing impurities from natural gas is carefully monitored.



CDC's Own Operations

The CDC has, of course, a character of its own, distinct from its underlying companies. We are a lean organization with only 30 people on staff at our Vancouver and Toronto offices.

As we are the conduit for investing the capital of Canadians in many promising enterprises, it is often difficult to separate our activities from those of our underlying companies. We are, for example, involved

closely with them as creative investors, as the controlling shareholder, and as management and financial advisors.

We are active in seeking and analyzing new investment opportunities. In 1977, we established with other partners a new entrepreneurial company, CanWest Capital Corporation, headquartered in Winnipeg, and in which your Company holds a 35% participation. We were unsuccessful in our attempted acquisition of a food processing firm in Montreal but are continuing our search for an initial position in this manufacturing field.

We also provide financial support to our underlying companies to help them achieve their objectives. In 1977, we raised $60 million (U.S.) through a long-term debt issue, of which $40 million was invested in Polysar for its expansion program. We contributed $575,000, our share of the initial capital of CanWest.

After deducting our own operating costs of $2.2 million, most of the remaining funds were used to increase our own working capital which stood at $27.3 million at year-end, a $4.2 million improvement over 1976.

Our net income, on an unconsolidated basis, dipped slightly in 1977 to $20.4 million from $21.5 million in 1976. The most significant factor in this decline was the $2 million write-off of our investment in the Arctic Gas consortium.

Dividends paid on CDC preferred shares totalled $17.3 million in 1977, and by year-end, the CDC's retained earnings had risen by $1.7 million over the previous year to $21.8 million.

For the present, we are continuing the practice of bringing up only sufficient income from our underlying companies to satisfy our dividend commitments and to cover operating expenses, leaving the balance of income in the underlying companies for further development.

Petrochemicals

The Company's substantial investments in the petrochemicals sector are well-positioned for long-term returns following major advances by Petrosar and Polysar during the past year.

Petrosar

One of the more important events in 1977 — not only for us, but also for the future of the Canadian economy — was the start-up of the Petrosar world-scale complex in Sarnia. This $760 million project is the first integrated refinery-petrochemical plant in North America. Its start-up proceeded with a degree of success beyond our expectations and it is functioning smoothly with a permanent work force of more than 530 people.

The complex is designed to process up to 170,000 barrels of crude oil per day with the principal production being petrochemicals. It can, for example, produce annually more than three billion pounds of such basic petrochemicals as ethylene, propylene, butadiene, butylene, benzene and toluene/xylene. These basic building blocks are then further upgraded by processing industries into a variety of consumer products such as automobile tires, nylon hosiery, plastic sheeting, carpets, and latex paints.

Petrosar is a catalyst for increasing employment in many secondary and tertiary manufacturing industries. It has the potential to initiate the creation of as many as 8,000 new "downstream" jobs if carried through to consumer goods manufacturing in Canada.

The complex is ideally located in the well-established petrochemical centre of Sarnia, where the necessary customer plants are in place. Within a 500-mile radius can be found 60% of the total North American market for petrochemicals.

It is presently estimated that, by 1980, Petrosar and the petrochemical plants it supplies can improve Canada's annual trade balance by $500 million. In fact, by encouraging further processing of petrochemicals in Canada to the consumer goods stage, the additional improvement of the nation's trade balance could be another $1 billion for a potential total of $1.5 billion annually.

The patient transformation of Petrosar from a four-year drawing-board dream into a three-year construction project and now a successful operating company is a major accomplishment for CDC and Polysar, as well as their partners, Du Pont of Canada Limited and Union Carbide Canada Limited.

In early 1978, the partners arranged with a consortium of banks to restructure the finances of Petrosar through a conversion of term loans, used to fund the construction stages, into preferred shares.

We do not anticipate Petrosar will make a contribution to our operating income until the plant is operating closer to full capacity. However, Petrosar should generate significant income in the early 1980s and beyond.

Polysar

The start-up of Petrosar will substantially benefit our other major petrochemical investment, Polysar Limited. This manufacturer of synthetic rubber, plastics and petrochemicals will purchase a substantial portion of Petrosar's petrochemical production at competitive prices.

Moreover, Polysar will have an assured supply of feedstocks. For example, last year, Polysar completed the construction of Canada's first world-scale styrene plant in Sarnia, which will receive its raw material supplies directly from Petrosar. This $87 million project was finished within the two-year planning period and at a lower cost than the budgeted $90 million.

The styrene plant has a capacity of 600 million pounds annually. It will increase Canada's production capability of this important building block — used for such products as synthetic rubber, latex and thermoplastic resins — by nearly 150%. This will make Canada self-sufficient in styrene for many years to come.

The completed styrene plant creates 50 new permanent jobs, bringing our Sarnia employment in all Polysar operations to 3,700 people. Worldwide, Polysar employs 6,000 people.

Polysar's extensive and highly efficient operations in the European Economic Community were expanded last year with the acquisition of a 25% interest in a French plastics-forming business. Polysar already operates major synthetic rubber plants in both France and Belgium. The demand for Polysar's rubber products was particularly strong in Europe last year, more than compensating for the softening in North American markets.

Capital expenditure by Polysar last year totalled $42 million, compared with $77 million a year earlier.

With assets of $646.4 million, Polysar nearly doubled its net income last year to $14.4 million, or $4.22 per common share, compared with $7.5 million, or $1.37 per share, in 1976. The European operations once again made a substantial contribution to these earnings.

This year, particular attention will be given to seeking markets for high value-added product lines, such as specialty rubber.

Health Care

Innovative research, design and production methods keep Polysar at the forefront in international petrochemical markets.

CDC's investments in the health care field have enhanced Canada's international presence in medical research; the discovery, development and marketing of pharmaceuticals and biologicals; and related health services.

Montreal-based Connlab Holdings Limited, which coordinates our health care investments, is the only Canadian-owned group of consequence in pharmaceutical and biological production, research and development. By year-end the group employed 1,700 people, many of them scientists, researchers and other professionals, maintaining our position as one of Canada's leading corporate employers of skilled personnel devoted to finding new ways of combatting disease.

New Product Research and Development

Progress was made in initiating, continuing or completing research and development of products that will promote both human and animal health and in total we spent $6.7 million on R&D projects.

Connaught Laboratories Limited (100% owned) continued to make progress in improving its vaccine manufacturing processes. In the veterinary area, Connaught recently introduced a new, highly stable, potent and pure vaccine to protect cats against viral infections. This product, developed in only two years, complements Connaught's existing line of veterinary products, which includes a rabies vaccine.

Connaught, which employs 750 people in its large Toronto complex, remains the only laboratory licensed in North America to produce Salk polio vaccine, placing us in a strong growth position as the market demand increasingly switches to inactivated polio vaccines.

Omnimedic Inc. (70% owned) is conducting clinical trials in dermatology and neurology with the expectation of introducing a number of pharmaceutical compounds on the Canadian market within four years.

This Montreal-based company, with 150 employees, is also undertaking clinical trials on an anti-ulcer drug and anti-anginal compound under licence from a Japanese firm. As well, Omnimedic is conducting trials on drugs for the treatment of diabetes.

Bio-Research Laboratories Ltd. (100% owned) which employs about 80 people at its Montreal facilities, completed several contract projects involving the testing of drugs, food additives and consumer products. It continued testing efficacy and toxicity of various drugs, additives, chemicals and food products for client companies in Canada, the United States and Europe.

A/S Dumex (75% owned), which is based in Copenhagen and employs 700 people, continued its research program on pharmaceuticals for neurological diseases, rheumatism and cardiovascular diseases, as well as vitamins and nutritional additives. Dumex is achieving marketing success in developing countries with its line of pharmaceutical and nutritional products.

In Edmonton, Raylo Chemicals Limited (100% owned) undertakes highly specialized chemical research contracts for government and industry. This company also produces fine chemicals.

New Facilities

We further enhanced our Canadian scientific capability during 1977 with the move by Bio-Research to enlarged facilities in the west end of Montreal Island. When fully operational at the end of this year, these fine life-science and health care laboratories will employ a further 40 people.

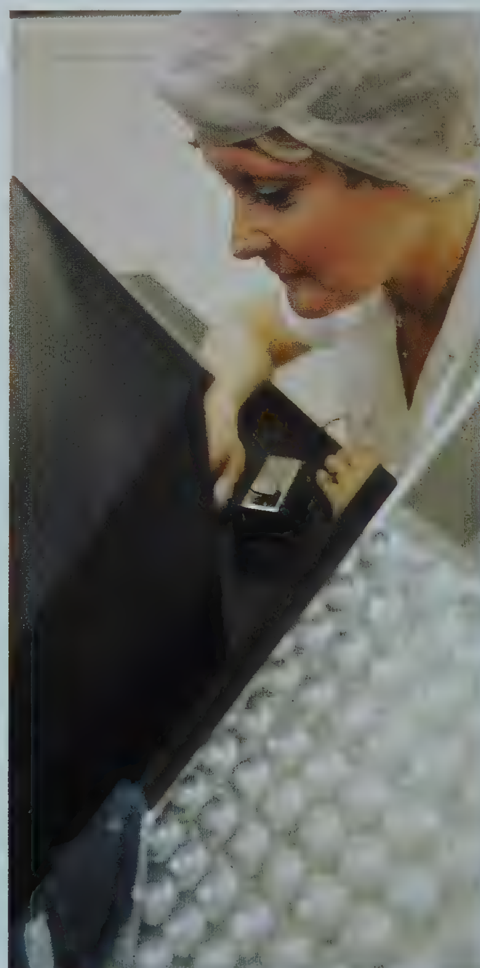
At the end of 1977, Connaught established an important base in the United States by purchasing top-quality biological facilities in Swiftwater, Pennsylvania. Connaught can now manufacture its own vaccines in the U.S. for influenza, yellow fever and meningitis. The facilities, bought from the Salk Institute, will also enable Connaught to expand its product lines and develop new markets for human and animal vaccines produced in Canada.

Dumex expanded its facilities in Denmark. This company now markets in 40 countries, with extensive operations in Scandinavia, parts of Africa such as Nigeria, and the Far East. Construction of a new plant was completed in 1977 and a second plant is scheduled for completion this year, enabling the company to increase significantly its pharmaceutical production.

Financial Results

Overall, our health care product sales improved substantially last year to $106 million from $89 million in 1976, though we suffered a $1.1 million loss, compared with $572,000 profit in 1976. The 1977 situation largely reflected the write-off of approxi-

Connlab's 1700 employees are engaged in research, development, production and marketing of pharmaceuticals and biological products in Canada and around the world.



mately $1.8 million for an unsuccessful joint-venture in Mexico and a write-down of Brazilian investments consistent with the continuing depreciation of the cruzeiro.

Connaught's sales declined last year to $23 million. However, its basic underlying sales increased by 35% after adjustment for the unusual effect of the 1976 swine flu program. While Connaught did not meet profit expectations last year, a modest contribution to CDC earnings is expected this year. Dumex's sales and earnings increased in 1977 over those of the previous year by 28% and 52% respectively. These unusually high levels are likely to decline in 1978 due to import restrictions imposed on nutritional products by certain countries facing currency problems. Omnimedic achieved improved sales and earnings in 1977 despite heavy investments in the development of new products, and expects to maintain its position in 1978. Bio-Research offers encouraging earnings potential once its new facilities are completely on stream. Raylo Chemicals, with expanded chemical production facilities, expects increased sales revenues this year.

Expanded exploration activities by CDC Oil & Gas have located new reserves for future production.

Oil and Gas

CDC Oil & Gas Limited has proven to be one of our fastest-growing and most successful investments.

Based in Calgary with a total staff of 130 people, this underlying company has just completed a year highlighted by significant financial gains and a continued expansion of exploration and acquisition activities.

During 1977, earnings of CDC Oil & Gas rose from $8.7 million to $12.2 million and cash flow from $18.3 million to $25.4 million. The year-over-year increase of 39% in both instances reflects the accelerating rate of growth experienced by the industry.

With capital investment totalling some $71 million, primarily directed towards semi-proven and non-proven acreage acquisitions, CDC Oil & Gas increased its

total assets to $151.9 million by year-end, from $86.1 million in 1976.

Exploration and Development

While we are a long way behind our major Canadian competitors in terms of resources (we rank 27th in Canada in terms of gross production of oil and natural gas), CDC Oil & Gas launched an aggressive exploration and development program for its size, which included a tripling of exploration expenditures to more than $16 million.

In Western Canada, the company directly and indirectly participated in 20 exploratory wells which resulted in 10 natural gas completions. Existing land holdings in southeastern Alberta were complemented through the acquisition from El Cinco Oils Ltd. of 30,000 acres of semi-proven and non-producing acreage. Selective leasehold purchases were also made in northeastern British Columbia and west central Alberta. Of a total of 33 development wells in which CDC Oil & Gas participated during 1977, 24 resulted in gas wells and six were completed as oil wells.

CDC Oil & Gas broadened its base of exploration interest in 1977 to include the Canadian frontiers and selected international areas.

The company also purchased a net profit interest in four structures being tested by Dome Petroleum Limited in the Beaufort Sea. Three were drilled last year, reporting significant gas and/or oil discoveries, with the fourth structure to be drilled this year.

In the latter part of the year, CDC Oil & Gas completed an acquisition of frontier acreage held by Sabre Petroleums Ltd. in the Beaufort Sea, Arctic Islands, Lancaster Sound and offshore Labrador. Farmouts should satisfy almost all of the work requirements on the lands through 1982. Overseas, the company has a 25% interest in a group evaluating prospects in the Western Approaches area of offshore Great Britain.

A major acquisition in 1977 was the $45 million (U.S.) purchase of a 25% working interest in 27,000 acres of partially developed land located on the Gulf of Mexico, southwest of Lake Charles, Louisiana. The tract now has 14 productive wells and development of the land, using two drilling rigs and one completion unit, is expected to continue for the next five years.

Production

The company's crude oil and natural gas reserves are primarily located in Alberta with the remainder in British Columbia, Saskatchewan and Louisiana. Of the more than 20 natural gas processing facilities in which CDC Oil & Gas has an interest, five are operated by the company.

Volumes of crude oil and natural gas liquids produced in 1977 remained fairly constant with 1976 levels at an average rate of 4,400 barrels per day (net after royalties). New production was acquired in Louisiana and additional wells were tied into existing facilities in northeastern British Columbia and southeastern Alberta. However, natural gas sales were only slightly increased to an average of 42 million cubic feet per day (net after royalties). The excess supply of natural gas in the Eastern Canada market severely restricted the company's productive capacity in Alberta during 1977.

Financial Results

This year, further financial gains are expected by CDC Oil & Gas. The company is committed to an expansion of its exploration and development activities in Western Canada. In addition, modest investments are forecast for the Canadian frontier and international areas as well as for uranium exploration.

Growth through acquisition remains a prime objective, although market prices may preclude completion of such a transaction in 1978.

Venture and Expansion Capital

The CDC has been instrumental during the past five years in building the largest single pool of venture capital financing available in Canada.

Our catalytic function in encouraging the survival and growth of profitable small businesses throughout Canada is particularly significant during a period in which the venture capital industry has shrunk, making it difficult for entrepreneurs with fresh ideas to fulfill their potential.

The CDC Directors decided as early as 1972 to stimulate Canadian enterprise by providing small firms with start-up capital to support their product development and market expansion. As well, we recognized that young enterprises with growth potential needed management skills, marketing know-how and financial expertise.

Consequently, between August, 1972 and April, 1973 we invested, along with other individual and institutional investors, in three venture capital companies to carry out this mandate. These three companies are

Gauging the extrusion of plastic at Coroplast, completing the circuitry of radio telephones at International Systcoms, and programming the intricate operations of an AES Data word processing system, all require professionalism and precise engineering.

Ogilvie Mineral Corporation explores for promising mineral deposits. Canadian Foremost has developed sophisticated heavy-duty vehicles for work on pipelines.

— Ventures West Capital Ltd. (49% CDC owned) based in Vancouver; Venturetek International Limited (32% owned) based in Toronto; and Innocan Investments Ltd. (37% owned) based in Montreal.

Our original capital investment in these three firms was $10.4 million. By the end of 1977, the venture capital pool held investment positions in some 25 enterprises, involved in such diverse activities as electronic word processing, the development of automated mapping equipment, oil and gas exploration, the production of heavy-payload off-highway vehicles and the production and retailing of soft drinks.

Many of these enterprises have entered export markets, thereby providing a wider base for Canadian technology and products. Collectively they employ more than 2,900 people.

Our objective is to nurture these enterprises to the stage where they are profitable and able to stand on their own feet — a process that takes five years or more, depending on the individual firm. Of course, risk-taking has no guarantee of success and some of our venture capital investments have not lived up to our original expectations.

Other enterprises, however, have become strong earners. Consequently, last year two enterprises were sold. Early this year, another firm was sold and we expect to divest other firms later in 1978.

Your Company should realize worthwhile gains from these divestitures, which will make substantial funds available for investment in new prospects. In fact, today several enterprises have blossomed into sizeable operations and it is possible one or more will be attractive acquisitions for CDC because of their profit and growth potential.

All of our venture capital associates are actively searching for promising investment prospects so that we can continue to aid these enterprises through the critical growth stages and enhance our capital gains and earnings.

CanWest Capital

Last year, CDC expanded into new territory with an initial investment in an enterprise which combines the spirit of venture capitalism with active participatory management in medium-sized companies demonstrating sound growth potential.

The vehicle for this aspect of our diversification is CanWest Capital Corporation, based in Winnipeg. Your Company holds a 35% equity interest in CanWest, which we helped create with private entrepreneurs and private and institutional investors. CanWest, in turn, will take a controlling equity position in promising companies and be a direct partner in their management.

By year-end, CanWest had an equity management position in two communications firms, one in Canada and the other in the United States. Your Company has a commitment to provide additional equity funds of up to $6.5 million to CanWest.

The closing of the open pit mine in Timmins, Ontario, symbolizes the end of an era and the begining of an expanded mining operation underground.

A fertilizer plant in North Carolina is one of Texasgulf's many diversified operations.

Mining

The CDC is the largest shareholder, with 30% of the common shares, in Texasgulf Inc., a diversified $1.5 billion organization of international stature in the natural resources and energy field.

Texasgulf, which produces various essential base metals, chemicals, oil and gas, has large, high-quality reserves strategically located in Canada, the United States and elsewhere. It employs 5,370 people worldwide in its modern and efficient plants.

This substantial asset in our portfolio maintained profitable operations in all of its divisions last year — despite the fact that 1977 was the worst year since the Great Depression for base metal companies. For Texasgulf it was the most disappointing earnings year since 1972, though the company recorded the second highest sales level in its history. Higher revenues from soda ash, oil and gas, and phosphate rock more than offset the decline in sales of metals and other phosphate products.

The International Context

International metal markets continued in a state of oversupply and greatly depressed prices. Consequently, inventories reached historic highs.

The reasons for the prevailing trough in which the industry languishes are directly traceable to two principal developments in 1973. In that year, the world became intensely concerned about the exhaustibility of natural resources. This prompted hedge-buying and a surge in demand. Producers expanded their facilities to satisfy the market. In the same year, the Organization of Petroleum Exporting Countries (OPEC) initiated the first of several sharp price increases for oil, which eventually increased energy costs fivefold.

These dramatic changes in conventional resource economics precipitated the severe

recession and high inflation which have plagued many nations during the 1970s. Basic resource companies, however, maintained production in the hope that the recession would be shortlived. The result has been excessive inventory positions, particularly in copper and zinc. Many Canadian and U.S. companies subsequently cut production, though many Third World countries continue to produce at capacity in order to preserve employment and foreign exchange reserves.

Texasgulf's Performance

Under these international circumstances, Texasgulf has done a commendable job in maintaining profitability and avoiding layoffs. Zinc metal production was curtailed by closing down the zinc plant for the month of August and reducing operating capacity to 65% for the remainder of the year. Frasch sulphur production was also cut to a 70% operating rate beginning in June.

Capital expenditures were reduced, conserving cash. The major expansion of the Kidd Creek Mine at Timmins, involving a copper smelter and refinery and the development of a new underground mine, was rescheduled over a longer period, pending improved demand for zinc and copper.

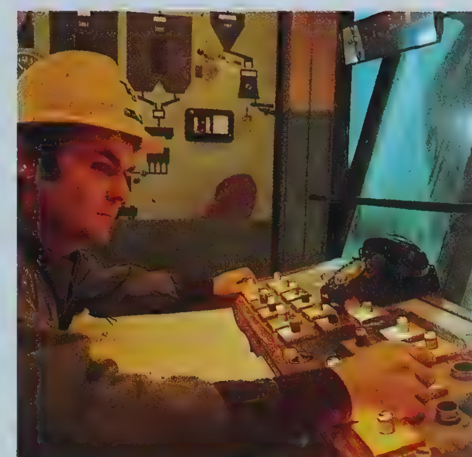
Other Activities

Among other products, Texasgulf achieved its highest ever production of phosphate in the second half of last year, following the introduction of a new mining technique at its Lee Creek, North Carolina, complex. The new system improves the recovery of ore from 50% to more than 95%. It will permit the expansion of fertilizer production capacity at this complex, which is strategically located to serve world markets by both rail and water. Texasgulf owns or leases about 35,000 acres at Lee Creek containing approximately 2.2 billion tons of phosphate sands, of which 1.2 billion tons are proven recoverable reserves.

Texasgulf last year enjoyed substantially increased potash production from the Allan Potash Mines, near Saskatoon, Saskatchewan, in which it has a 40% interest. Early in 1978, the company rejected as insufficient a $56.7 million offer for its interest by the government-owned Potash Corporation of Saskatchewan, which plans to acquire or develop about 50% of the Province's potash production. The Allan Mine, with its modern, efficient plant, has a rated capacity of 1.5 million tons a year and is one of the largest in Saskatchewan. Reserves at Allan are 2.03 billion tons of ore averaging 24.5% K_2O.

Texasgulf is increasingly stressing the development of energy supplies to broaden and stabilize its earning base. Last year, for

Texasgulf uses highly mechanized methods for the extraction, separation, concentration and handling of minerals.



example, it nearly doubled its revenues from oil and gas, particularly from its offshore Louisiana interests, with even better results projected for this year. Texasgulf's oil and gas acreages in the U.S., Canada and overseas, at least 90% of which is undeveloped, total more than 3.6 million gross acres with 31 wildcat wells drilled last year and nine development wells (four in Canada and five in the U.S.). The company also has an interest in 11 wells drilled by other companies.

The Outlook

During the next few years, much improved returns are expected from Texasgulf, which is emphasizing cost control programs and giving priority to the development of new uses and markets for its products to stabilize and enhance long-term earnings.

International base metal markets appear to be achieving a better balance between supply and demand, with consumption rising and inventories moderating. Further improvements are expected during the next few years.

People throughout the CDC group are working to build a better tomorrow.

Concept: *Ken Grant*
Design: *John Terin*
Photography: *Ken Grant*
Bob Warren

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Peter K. Powell
Vice President and
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James M. O'Reilly
Treasurer

James D. Ellis
Controller

† Member of Audit Committee
†† Member of Communications Committee
* Member of Executive Committee

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canada development corporation annual report 1977

Canada Development Corporation Annual Report 1977

Introduction

This second section of the Annual Report presents the 1977 consolidated financial statements of the Corporation. In addition, this section contains a financial summary of the Corporation on both a consolidated and unconsolidated basis for the six full years of its existence, followed by financial data on our major underlying companies since their acquisition.

Contents

Book Two

Consolidated Financial Statements

Year Ended December 31, 1977

Canada Development Corporation

Summary of Significant Accounting Policies

This summary of the significant accounting policies of Canada Development Corporation and its subsidiaries is presented to assist the reader of the financial statements contained in this report.

Principles of Consolidation

These consolidated financial statements incorporate the financial position, operating results and changes in financial position of the corporation and its subsidiary companies (note 15).

Foreign Exchange

Non-Canadian current assets and liabilities are translated at rates of exchange in effect on December 31; all other assets, applicable depreciation and non-current liabilities at the rates prevailing when the assets were acquired or the liabilities incurred; and income and expenses, except depreciation, at rates in effect during the year. Gains or losses resulting from such translation practices are reflected in the consolidated statement of income.

Short-term Investments

Short-term investments are valued at cost which approximates market value.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Long-term Investments

The Corporation accounts for investments in companies over which it has effective control or significant influence on an equity basis. Other long-term investments are accounted for by the cost method.

Petroleum and Natural Gas Properties

The Corporation follows the full cost method of accounting for oil and gas operations, whereby all costs of acquiring properties, exploring for and developing oil and gas and related reserves are capitalized in various cost centres. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells and overhead expenses related to exploration activities.

Depreciation, Depletion and Amortization

Depreciation of plant and equipment other than that relating to petroleum and natural gas properties is based on the estimated useful life of the assets from commencement of production and is calculated on the straight-line or diminishing balance method as considered most appropriate for each company.

Depreciation, depletion and amortization of producing oil and gas properties is provided by the unit-of-production method based on the estimated proven recoverable reserves of each cost centre as determined by company engineers. Costs of non-producing properties are being amortized on a straight-line basis over the anticipated period of exploration for each cost centre. If exploration proves to be successful, amortization is suspended and the unamortized balance is depleted on the unit-of-production basis.

Pre-production Expenditures

Pre-production expenditures incurred in connection with major new production facilities are deferred and amortized from commencement of production on the straight-line basis over a period generally not exceeding ten years.

Goodwill

Goodwill arising from acquisitions to the end of 1973 is recorded as an asset without amortization. If it subsequently becomes apparent that the value expected to be obtained has not been realized, or if the value of the goodwill is reduced or deteriorates, it will be appropriately amortized or written off against income. Goodwill arising on acquisitions subsequent to 1973 is being amortized over the expected period of benefit, not to exceed forty years.

Cost of Preferred Share Issues

The cost of raising equity capital is amortized to retained earnings over a period dependent upon the terms and conditions of each issue.

Research, Patents and Technology

Research expenditures, net of government grants related thereto, patents and technology are charged against operations as incurred.

Income Taxes

Income taxes include withholding taxes on dividends received.

For the purpose of computing taxable income, legislation in Canada and certain other countries permits the deduction of certain items in amounts which differ from those charged in the financial statements. Income taxes in the consolidated statement of income include taxes deferred as a result of these timing differences as well as taxes currently payable.

The Corporation does not give recognition to the potential tax benefit of losses until these benefits are realized. These recurring tax benefits, when realized, are not considered to be extraordinary in nature and are reflected as reductions of current income taxes.

Consolidated Balance Sheet

December 31, 1977

Canada Development Corporation

Assets

	1977	1976
Current Assets	*(thousands of dollars)*	
Cash	$ 6,294	$ 6,987
Short-term investments	84,115	69,368
Accounts receivable	199,872	138,379
Inventories (note 1)	244,921	133,678
Real estate investments	9,123	11,779
Prepaid expenses	6,333	4,690
	550,658	364,881
Long-term Investments (note 2)	398,006	399,665
Fixed Assets (note 3)	1,013,383	764,645
Other Assets (note 4)	104,039	57,678
	$ 2,066,086	$ 1,586,869

Liabilities

	1977	1976
Current Liabilities		
Short-term loans	$ 265,217	$ 134,201
Accounts payable and accrued liabilities	195,914	109,924
Dividends payable	4,333	4,333
Income and other taxes payable	6,245	938
Long-term debt due within one year	9,527	26,026
	481,236	275,422
Long-Term Debt (note 5)	687,322	471,850
Deferred Income Taxes	37,233	28,427
Interests of Minority Shareholders (note 6)		
Subordinated debentures of subsidiaries	68,971	26,708
Equity in subsidiaries	77,961	76,013
	146,932	102,721
	1,352,723	878,420

Shareholders' Equity

	1977	1976
Capital Stock (note 7)	566,810	566,810
Retained Earnings	146,553	90,067
Excess of Book Value over Cost at Date of Acquisition of Subsidiary (note 8)		51,572
	713,363	708,449
	$ 2,066,086	$ 1,586,869

Approved on behalf of the Board,

H.A. Hampson, Director

M.J. Moreau, Director

Consolidated Statements of Income, Retained Earnings and Changes in Financial Position

Year Ended December 31, 1977
Canada Development Corporation

Consolidated Statement of Income

	1977	1976
	(thousands of dollars)	
Revenue		
Sales of products and services	$ 708,798	$ 564,226
Other income	15,278	13,755
	724,076	577,981
Expenses		
Cost of sales	549,484	441,353
Selling, administration and research	107,825	88,346
Interest on long-term debt	19,113	10,098
Other interest	10,056	8,533
	686,478	548,330
	37,598	29,651
Equity in earnings of other companies (note 2)	10,897	12,116
Income before income taxes and other items	48,495	41,767
Translation (gains) losses	(6,825)	4,428
Income taxes	17,737	11,349
Minority interest in income of subsidiary companies	6,006	4,610
	16,918	20,387
	31,577	21,380
Unusual items (note 9)	7,773	429
Income before extraordinary item	23,804	20,951
Gain on sale of land		749
Net income	$ 23,804	$ 21,700*
Earnings per common share after preferred share dividends		
Income before extraordinary item	$0.21	$0.12
Extraordinary item		0.02
Net income	$0.21	$0.14

Consolidated Statement of Retained Earnings

	1977	1976
	(thousands of dollars)	
Retained earnings at beginning of year	$ 90,067	$ 87,222*
Net income	23,804	21,700
Excess of book value over cost at date of acquisition of subsidiary (note 8)	51,572	
	165,443	108,922
Dividends on preferred shares	17,331	17,296
Amortization of cost of preferred share issues	1,559	1,559
	18,890	18,855
Retained earnings at end of year	$ 146,553	$ 90,067

**As restated, see note 2(iii)*

Consolidated Statement of Changes in Financial Position

	1977	1976
Working capital derived from	*(thousands of dollars)*	
Operations		
Income before extraordinary item	$ **23,804**	$ 20,951
Items not involving working capital		
Depreciation and depletion	**39,510**	30,386
Amortization	**3,157**	1,414
Decrease (increase) in equity in other companies	**9,063**	(1,938)
Deferred income taxes	**8,806**	6,933
Minority interest	**6,006**	4,610
	90,346	62,356
Issue of shares and rights		2,247
Issues of long-term debt	**228,599**	240,920
Investment by minority shareholders		
Subordinated debentures of subsidiaries	**42,263**	26,708
Equity in subsidiaries	**277**	2,508
	361,485	334,739
Working capital applied to		
Investment in petroleum and natural gas properties	**70,942**	10,617
Additions to other fixed assets	**217,306**	280,871
Increase in investment in other companies	**7,404**	47,621
Dividends on preferred shares	**17,331**	17,296
Reduction of long-term debt	**13,127**	22,773
Additions to other assets	**51,077**	18,920
Dividends to minority shareholders	**4,335**	4,322
	381,522	402,420
Decrease in working capital	**20,037**	67,681
Working capital at beginning of year	**89,459**	157,140
Working capital at end of year	$ **69,422**	$ 89,459

Notes to Consolidated Financial Statements

Year Ended December 31, 1977

Canada Development Corporation

1. Inventories

	1977	1976
	(thousands of dollars)	
Finished goods	**$126,927**	$ 59,872
Raw materials and work in progress	**91,444**	55,191
Operating and maintenance supplies	**26,550**	18,615
	$244,921	$133,678

2. Long-term investments

	1977	1976
	(thousands of dollars)	
Texasgulf Inc.	**$367,909**	$372,041
Other	**30,097**	27,624
	$398,006	$399,665

(i) The Corporation, through a wholly-owned subsidiary, owns 9,259,720 (30.0%) of the outstanding common shares of Texasgulf and 1,000,000 (33.3%) of the outstanding $3.00 convertible cumulative preferred Series A shares of Texasgulf. If all outstanding Texasgulf preferred shares were converted to common shares, the Corporation's ownership would increase to 30.5%. The quoted market value of the Corporation's shares of Texasgulf at December 31, 1977 was $238 million (common share, $21.00; preferred share, $43.63) which because of the number of shares owned, is not necessarily indicative of the amount which would be realized if the shares were to be sold.

(ii) The excess of cost of the investment in the common shares of Texasgulf over the Corporation's equity in the net book value of the underlying assets of Texasgulf amounts to $152 million (restated from $143 million — note 2(iii)). This excess has been allocated to resource assets, which are diverse both in nature and in estimated length of economic life, and the excess is being amortized on a straight-line basis over a period of 40 years.

The Corporation's equity in the reported earnings of Texasgulf which is included in "Equity in earnings of other companies" has been computed as follows:

	1977	1976
	(thousands of dollars)	
Share of net income of Texasgulf	**$ 14,724**	$ 17,897
Less amortization of excess of cost of investment over equity in net book value of underlying assets of Texasgulf	**3,802**	3,802
	$ 10,922	$ 14,095

(iii) In 1977 Texasgulf retroactively adopted the successful efforts method of accounting for oil and gas activities in accordance with a recent change in United States accounting practice. Accordingly, the Corporation's equity in earnings of Texasgulf for 1976 has been restated to reflect a decrease of $839,000. The balance of retained earnings at January 1, 1976 previously reported as $91,699,000 has been reduced by $4,477,000 to show this change in accounting policy.

3. Fixed assets

	1977			1976
	(thousands of dollars)			
	Cost	Accumulated depreciation and depletion	Net	Net
Land, plant and equipment	$1,120,832	$287,076	$ 833,756	$646,439
Petroleum and natural gas properties	205,763	26,136	179,627	118,206
	$1,326,595	$313,212	$1,013,383	$764,645

4. Other assets

	1977	1976
	(thousands of dollars)	
Long-term receivables	**$ 10,886**	$ 13,216
Pre-production expenditures	**70,583**	18,909
Goodwill	**17,938**	19,361
Cost of preferred share issues	**4,632**	6,192
	$104,039	$ 57,678

During the next five years, pre-production expenditures will be amortized to income at the rate of $8 million annually.

5. Long-term debt

	1977	1976
	(thousands of dollars)	
Canada Development Corporation		
Income Debentures, due 1984 (United States dollars)	**$ 61,350**	
Petrosar Limited (note 10)		
Bank term loans	**381,500**	$295,000
Customer Prepayments	**36,546**	
	418,046	295,000
Polysar Limited		
In Canadian dollars		
7.5% Sinking fund debentures, due 1978 through 1987	**11,043**	11,663
9% Sinking fund debentures, due 1979 through 1993	**35,000**	35,000
In United States dollars		
10% Debentures, due 1982	**30,192**	30,192
9.5% Debentures, due 1986	**50,613**	50,613
Floating rate term loans, repayable 1980 through 1987	**38,196**	2,040
7% to 11% notes and mortgages, repayable 1978 through 1991	**2,250**	3,697
Capitalized lease obligations, expiring 1978 through 1985	**8,707**	9,464
In other currencies		
7.5% minimum rate, due 1981 (Swiss francs)	**6,244**	6,244
2.5% to 9%, repayable 1978 through 2004 (German marks)	**4,264**	20,305
9.25% repayable 1978 through 1980 (French francs)	**962**	1,744
9% mortgage, repayable 1978 through 1981 (Belgian francs)	**552**	1,975
Capitalized lease obligations, expiring 1978 through 1992 (Belgian francs)	**4,172**	6,363
Capitalized lease obligations, expiring 1978 through 1982 (British pounds)	**804**	
Other	**6,495**	5,250
	199,494	184,550
Connlab Holdings Limited		
Floating rate term loan due 1985	**6,000**	6,000
Floating rate term loan, repayable 1978 through 1983 (United States dollars)	**5,471**	6,285
6% to 10% mortgage, repayable 1978 through 1985 (Danish kroner)	**2,434**	3,507
14% mortgage, repayable 1978 through 1986 (Danish kroner)	**1,686**	1,676
Other	**2,368**	858
	17,959	18,326
	696,849	497,876
Less portion maturing within one year	**9,527**	26,026
	$687,322	$471,850

Long-term debt payable in foreign currency would increase by $24.5 million if converted into Canadian dollars on the basis of exchange rates at December 31, 1977.

Sinking fund requirements and the long-term debt due in each of the next five years are as follows:

1978 — $9.5 million; 1979 — $40.3 million; 1980 — $68.4 million; 1981 — $64.9 million; 1982 — $90.6 million.

In February 1977, the Corporation issued U.S.$60 million Income Debentures due February 15, 1984, bearing interest at 5% for the first five years and at a floating rate, based on the U.S. dollar lending rate of a Canadian chartered bank, for the last two years. The debentures are redeemable at par in whole or in part at the option of the Corporation after February 15, 1982.

Notes to Consolidated Financial Statements

Continued

6. Interests of minority shareholders

	1977	1976
	(thousands of dollars)	
Subordinated debentures of Petrosar (note 10)	**$ 68,971**	$ 26,708
Equity in subsidiaries		
Polysar	**50,000**	50,000
Petrosar	**20,800**	20,800
Others	**7,161**	5,213
	77,961	76,013
	$146,932	$102,721

The minority interest in the equity of Polysar consists of 8.4% cumulative redeemable first preferred shares. Polysar is required during the 30-day period ending March 1, 1982, to invite tenders at $25 per share from the holders of these shares and to purchase on April 1, 1982 the shares so tendered.

7. Capital stock

(i) Authorized

Preferred

$1,000,000,000 divided into shares with a par value in any multiple of $5 not exceeding $1,000 each

Common

200,000,000 shares without par value

	1977	1976
	(thousands of dollars)	
Issued		
Preferred		
10,000,000 5¾% cumulative, redeemable, non-voting Class A shares of $10 each	**$100,000**	$100,000
1,447,803 8% cumulative, redeemable convertible, voting Class B shares of $100 each (1976, 1,447,813 shares)	**144,780**	144,781
Common		
30,712,158 shares (1976, 30,712,038 shares)	**322,030**	322,029
	$566,810	$566,810

The Class A preferred shares are redeemable on or after March 5, 1979 at the option of either the Corporation or any holder at par plus all accrued and unpaid dividends.

The Class B preferred shares are redeemable at the option of the holder from October 2, 1980 to December 31, 1980 and from October 2, 1985 to October 1, 1986, at par plus all accrued and unpaid dividends. They are also redeemable at the option of the Corporation, commencing October 2, 1980 at a price of $105 per share, reducing by $1 per year until October 2, 1985 when they become redeemable at $100 per share, plus in all cases accrued and unpaid dividends.

Each Class B preferred share carries the right to receive two bonus common shares, the first of which is to be issued to each holder of record on October 1, 1980, and the second to each holder of record on October 1, 1985, subject to earlier record dates being fixed by the Board of Directors.

Each Class B preferred share may be converted at any time at the option of the holder into ten common shares. On conversion, the holder receives immediate delivery of the bonus common shares.

At meetings of shareholders, holders of Class B preferred shares are entitled to ten votes per share and holders of common shares to one vote per share.

(ii) Issued during the year

During 1977 the Corporation issued 120 common shares upon conversion of 10 Class B shares which were cancelled.

(iii) Common shares reserved

At December 31, 1977, 14,478,030 common shares were reserved for issue upon the conversion of the Class B preferred shares outstanding as at that date. A further 2,895,606 common shares were reserved for issue pursuant to the bonus common share rights.

8. Excess of book value over cost at date of acquisition of subsidiary

In accordance with the policy expressed in previous years, the Corporation has reviewed its investment in Polysar for the years 1972 to 1977 inclusive and has concluded that it is appropriate to transfer $51.6 million directly to retained earnings in view of the Corporation's return on its investment in Polysar and the disposition of certain of Polysar's assets.

9. Unusual items

Included in unusual items is the write-off of the Corporation's investment in Canadian Arctic Gas amounting to $2,039,000 and a further write-down of the Building Systems Division to net realizable value amounting to $2,400,000. The remaining $3,334,000 is the write-down of investments in certain subsidiary and affiliated companies of Polysar and Connlab. Unusual items are net of related income taxes where appropriate.

10. Subsequent event

In February 1978, Petrosar entered into agreements with a consortium of Canadian chartered banks for the issue of preference shares, the proceeds of which are to be used to retire all long-term debt and to increase working capital. The consortium was issued $445 million of Class A preference shares which are redeemable over the period 1979 to 1987. Cumulative dividends at an annual rate of 1.35% plus 52% of the consortium's mean prime rate are payable quarterly, commencing in June 1978. The redemptions due in each of the next five years are as follows:

1978 — nil; 1979 — $20 million; 1980 — $35 million;
1981 — $40 million; 1982 — $50 million.

At the same time, the shareholders have converted their holdings of Petrosar's subordinated debt and the related accrued interest into Class C redeemable preference shares. Under the agreements, certain shareholders, including Polysar, have agreed to provide Petrosar with sufficient funds to enable it to pay the dividend on the Class A preference shares if Petrosar is unable to pay such dividends and to purchase these shares if not redeemed as scheduled. Polysar's portion of such obligation is 48%.

The Corporation has guaranteed certain of Polysar's obligations under the refinancing arrangements. The amount of the guarantee may vary but is limited to a maximum of $30 million.

11. Anti-Inflation Act and Regulations

The Corporation and certain of its subsidiaries and associated companies in Canada are subject to the Anti-Inflation Act and Regulations. The Act provides as from October 14, 1975 a restraint on prices, profit margins, compensation to employees and dividends. The legislation does not affect dividends expected to be paid by the Corporation on its Class A or Class B preferred shares during 1978. The Corporation has followed a policy of reinvesting earnings, and no dividends on common shares have been paid to date. The formula required by the Act would limit dividends on common shares to approximately $9 million in the year ending October 13, 1978.

12. Pension plans

Current service costs of pension plans are funded and charged to operations as they accrue. At December 31, 1977 the unfunded liabilities of the pension plans are estimated at approximately $14.1 million made up of past service costs of $6.5 million and an experience deficiency of $7.6 million. These liabilities are expected to be funded and charged to operations at an annual rate of approximately $1.6 million.

13. Revenue

The revenue of the Corporation is derived from:

	1977	1976
	(thousands of dollars)	
Petrochemical group	**$567,470**	$449,109
Health care group	**106,440**	88,704
Oil and gas group	**34,888**	26,413
	708,798	564,226
Interest income	**9,942**	10,526
Other income	**5,336**	3,229
	$724,076	$577,981

14. Remuneration of Directors and Officers

	1977	1976
Number of directors	**21**	22
Number of officers	**9**	11
Number of officers who are also directors	**3**	3
Aggregate remuneration of directors as directors of the Corporation	**$108,542**	$101,958
Aggregate remuneration of directors as directors of subsidiary companies	**$ 15,050**	$ 12,150
Aggregate remuneration of officers as officers of the Corporation	**$462,446**	$466,311

Officers of the Corporation received no remuneration from subsidiary companies.

Notes to Consolidated Financial Statements
Continued

15. Consolidated subsidiary companies

CDC Nederland B.V.

CDC Oil & Gas Limited
- CDC Producing Company
- CDC Oil & Gas International B.V.
- CDC Oil & Gas (U.K.) Ltd.

Connlab Holdings Limited
- Bio-Research Laboratories Ltd.
- Canada Pharmacal Co. (1975) Limited
- The Canada Serum Company Limited
- Comex Nederland B.V.
- Comprator A.G.
- Connaught Biologics Limited
- Connaught Laboratories Inc.
- Connaught Laboratories Limited
- Connaught Laboratories (Ireland) Limited
- Connlab do Brasil Industria e Comercio Limitada
- OY Dumex AB
- Dumex B.V.
- A/S Dumex, Denmark
- Dumex GmbH
- Dumex Lakemedel AB
- A/S Dumex, Norway
- Dumex (Pty.) Ltd.
- Dumex SPA
- Nordic Pharmaceuticals Limited
- Octo Laboratory Limited
- Omnimedic Inc.
- Pharbec Inc.
- R. & L. Molecular Research Ltd.
- Raylo Chemicals Limited
- Steele Chemicals Co. Ltd.

Petrosar Limited

Polysar Limited
- Bellaplast GmbH
- Bellaplast Nederland B.V.
- Com-Share A.G.
- Comshare B.V.
- Comshare International B.V.
- Com-Share Limited
- Comshare Limited (U.K.)
- Comshare S.A.
- Computer Sharing of Canada Limited
- Distribuidora Adanac S.A.
- General Plastics Co. Limited
- Genplac Limited
- Kayson-Mammoth Limited
- Komfortplast GmbH
- Monoplast S.A.
- Nippon Polymers Company Limited
- Polcrete Properties Incorporated
- Polymer Corporation Canada Limited
- Polymer (United Kingdom) Limited
- Polysar Australia Pty. Ltd.
- Polysar Belgium N.V.
- Polysar Cayman Limited
- Polysar de Venezuela S.A.
- Polysar Deutschland GmbH
- Polysar do Brasil Produtos Quimicos Ltda.
- Polysar Europa S.A.
- Polysar France S.A.
- Polysar GmbH
- Polysar Handelmaatschappij B.V.
- Polysar Incorporated
- Polysar International S.A.
- Polysar Italiana S.P.A.
- Polysar Latex, Inc.
- Polysar Nederland B.V.
- Polysar Plastics Inc.
- Polysar Plastics Limited
- Polysar Resins, Inc.
- Polysar Rubber Services, Inc.
- Polysar Skandinaviska A.B.
- Polysar Technical Service Centre N.V.
- Polysar (U.K.) Limited
- Polysar United States, Inc.
- Société de Latex S.A.
- Société Française Polysar
- Synthetic Elastomers Development S.A.
- Trent Rubber Services Limited

Auditors' Report

To the Shareholders of Canada Development Corporation

We have examined the consolidated balance sheet of Canada Development Corporation as at December 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
March 30, 1978

THORNE RIDDELL & CO.
Chartered Accountants

Historical Financial Summary

Glossary of Financial Terms

Amortization*
Spreading a large expenditure proportionately over a fixed period of time.

Asset*
Anything of value owned by a company or individual.

Balance Sheet*
Statement of the financial worth of a business or organization which is divided into three parts —assets, liabilities and ownership (equity).

Capital*
1. What is owned by a company or individual minus what is owed at a specific time. 2. Total investments of owners (shareholders) of a business at a given time, which may be calculated by subtracting from the total assets all the liabilities of those other than the owners.

Capital Asset*
Assets owned or held by a business of either a tangible or intangible nature which are expected to be used or held over several fiscal periods (not including stock for sale).

Capital expenditure**
An expenditure to acquire or add to a capital asset; an expenditure yielding enduring benefits.

Cash flow**
The figure resulting from adding back to income items that do not affect working capital, such as depreciation and amortization. Used chiefly by financial analysts and not to be confused with "cash flow" as used in the cash flow statement.

Consolidation*
A parent plus one or more subsidiary companies which present financial reports for the group as a whole, not as separate entities.

Corporation*
Legal entity or corporate person with authority to operate under provincial or federal statutes, usually formed to make a profit. Owners are liable for the debts only up to the amount of their investment.

Current liability**
A liability whose regular and ordinary liquidation is expected to occur within one year or within the normal operating cycle where that is longer than a year. A liability otherwise classified as current but for which provision has been made for payment from other than current resources should be excluded.

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Deferred income taxes**
The accumulated amounts by which income taxes charged in the accounts have been increased (accumulated tax allocation credit) or decreased (accumulated tax allocation debit) as a result of timing differences.

Depletion*
Gradual using up or consumption of a natural resource, recorded in the accounts.

Depreciation*
Gradual reduction of the cost of a fixed asset and gradual application of this cost to the expense of a business over the useful life of the asset.

Dividend*
Distribution to shareholders of a portion of the profits of the company.

Dividend coverage ratio**
The ratio of the net income to dividends.

Earnings per share**
The portion of income for a period attributable to a share of issued capital of a corporation. The calculation of earnings per share is relevant only with respect to shares whose rights to participate in the earnings have no upper limit.

Equity*
1. A right or claim to the assets of a company. Both the owners and creditors have equity in a business. 2. Amount that a business is worth beyond what it owes.

Expenditure*
1. Spending. 2. Incurring a liability.

Fixed Assets*
Property or equipment of a tangible nature owned by a business for use in its operations (not for sale), which is expected to have a useful life of several fiscal periods.

Income*
Difference between total revenue and total expense of a business for a given period.

Inventory*
Detailed list of items and their values owned at a specific point in time.

Investment*
Funds committed to something tangible or intangible in order to receive a return either in income or use.

**Terms reprinted with permission from the booklet "Terminology For Accountants" published by The Canadian Institute of Chartered Accountants.

Liability*
1. An amount owed to another, not necessarily due to be paid immediately. 2. An obligation to remit money or services at a future date.

Long-term liability**
A liability which, in the ordinary course of business, will not be liquidated within one year or within the normal operating cycle where that is longer than a year.

Minority interest**
1. The equity of the shareholders who do not hold the controlling interest in a controlled company. 2. In consolidated financial statements, the equity in subsidiaries that is applicable to shares that are not owned by the parent company or by a consolidated subsidiary company.

Profit*
Total revenue less total expenditures for a period of time calculated in accordance with generally accepted accounting principles.

Ratio*
Relative size, expressed as the number of times one quantity is contained in another: for example, the ratio of assets to liabilities of CDC this year, which has total assets of $2,066,086,000 and liabilities of $1,352,723,000 is $2,066,086,000 ÷ $1,352,723,000 = 1.53:1.

Retained Earnings*
Portion of a company's aggregate income since incorporation which remains invested in the operation after distribution of dividends to shareholders.

Revenue*
Inflow of cash or receivables from customers or clients in return for goods, services, or interest on investments.

Subsidiary*
Company which is controlled by another company usually through its ownership of the majority of shares.

Working capital**
The excess of current assets over current liabilities.

Write-Off*
(verb) To transfer an item which was considered an asset to an expense account; for example, to transfer an uncollectible account receivable to bad debts expense.
(noun) The item or amount reduced or cancelled.

CDC Consolidated Financial Summary

	1977	1976	1975	1974	1973	1972
			(thousands of dollars)			
Revenue						
Sales of products and services	$ **708,798**	$ 564,226	$ 469,605	$ 454,204	$ 285,029	$ 92,333
Other Income	**15,278**	13,755	13,055	9,610	11,651	3,974
	724,076	577,981	482,660	463,814	296,680	96,307
Expenses						
Cost of sales	**549,484**	441,353	373,170	336,701	220,846	79,490
Selling, administration and research	**107,825**	88,346	81,002	69,209	40,909	12,031
Interest on long-term debt	**19,113**	10,098	10,255	10,994	4,835	1,614
Other interest	**10,056**	8,533	7,789	5,576	5,441	492
	686,478	548,330	472,216	422,480	272,031	93,627
	37,598	29,651	10,444	41,334	24,649	2,680
Equity in earnings of other companies	**10,897**	12,116	25,321	40,210	6,757	—
Income before income taxes and other items	**48,495**	41,767	35,765	81,544	31,406	2,680
Translation (gains) losses	**(6,825)**	4,428	(344)	1,536	(625)	—
Income taxes	**17,737**	11,349	8,358	8,472	6,601	925
Minority interest in income of subsidiary companies	**6,006**	4,610	3,285	175	30	(318)
	16,918	20,387	11,299	10,183	6,006	607
	31,577	21,380	24,466	71,361	25,400	2,073
Unusual items	**7,773**	429	1,525	8,802	5,293	—
Income before extraordinary items	**23,804**	20,951	22,941	62,559	20,107	2,073
Extraordinary items	**—**	749	—	(4,900)	(1,435)	—
Net income	$ **23,804**	$ 21,700	$ 22,941	$ 57,659	$ 18,672	$ 2,073
Earnings per common share after preferred share dividends			*(dollars)*			
Income before extraordinary item	**$0.21**	$0.12	$0.47	$2.01	$0.95	$0.31
Extraordinary item	**—**	$0.02	—	$(0.17)	$(0.07)	—
Net income	**$0.21**	$0.14	$0.47	$ 1.84	$ 0.88	$0.31

Net income has been restated for the years 1974 through 1976 as disclosed in Note 2 to the Financial Statements.

	1977	1976	1975	1974	1973	1972
			(thousands of dollars)			
Cash flow from operations	**$ 90,302**	$ 62,356	$ 38,730	$ 58,130	$ 35,187	$ 10,269
Other sources of funds	**271,185**	272,383	327,965	191,676	196,172	113,885
	$ 361,487	$ 334,739	$ 366,695	$ 249,806	$ 231,359	$ 124,154
Investments	**$ 7,404**	$ 47,621	$ 107,821	$ 1,989	$ 310,683	$ 28,889
Capital expenditures	**288,248**	291,488	192,658	74,268	30,814	8,125
Dividends on Class A preferred shares	**5,750**	5,750	5,750	4,750	—	—
Dividends on Class B preferred shares	**11,582**	11,546	2,842	—	—	—
Dividends to minority shareholders	**4,335**	4,322	3,206	—	—	—
Other uses of funds	**64,205**	41,693	25,669	16,320	20,420	5,212
Changes in working capital	**(20,037)**	(67,681)	28,749	152,479	(130,558)	81,928
	$ 361,487	$ 334,739	$ 366,695	$ 249,806	$ 231,359	$ 124,154
Working capital	**$ 69,422**	$ 89,459	$ 157,140	$ 128,891	$ (23,588)	$ 106,970
Working capital ratio	**1.1:1**	1.3:1	1.7:1	1.7:1	0.9:1	2.7:1
Fixed assets (net)	**1,013,383**	764,645	502,792	216,271	169,263	128,040
Equity investments	**398,006**	399,665	350,104	330,986	296,194	10,042
Long-term debt	**687,322**	471,850	253,703	137,439	122,803	48,195
Debt/equity ratio	**1.0:1**	0.7:1	0.4:1	0.3:1	0.4:1	0.2:1
Deferred taxes	**37,233**	28,427	21,492	9,744	7,166	4,153
Preferred equity	**244,780**	244,781	242,534	100,000	—	—
Common equity	**468,583**	463,668	460,823	446,948	344,374	200,702
Return on common equity	**1.4%**	1.1%	3.8%	12.9%	6.3%	2.1%
Total assets	**2,066,086**	1,586,869	1,273,060	898,223	701,438	315,602
Dividend coverage (unconsolidated)	**1.17x**	1.24x	0.87x	1.93x	—	—
Common shares outstanding at year-end	**30,712,158**	30,712,038	30,712,038	29,756,989	25,677,009	12,594,114

CDC Unconsolidated Highlights

	1977	1976	1975	1974	1973	1972
CDC was established on November 18, 1971			*(millions of dollars)*			
Revenues	$ **29.1**	$ 24.6	$ 18.4	$ 15.0	$ 9.1	$ 2.5
Selling, administration and research	**2.2**	2.0	1.7	1.5	.9	.7
Interest expense	**4.5**	1.1	.9	2.6	2.7	.3
Taxes, minority interest, other	**2.0**	—	.7	(.3)	1.8	.3
Net income	**20.4**	21.5	15.1	11.2	3.7	1.2
Cash flow	**18.6**	21.5	15.9	11.6	4.3	1.2
Working capital	**27.3**	23.1	67.0	42.1	(113.7)	44.8
Fixed assets (net)	**.2**	.1	.1	.1	.1	.1
Total assets	**677.2**	605.4	608.9	446.0	383.1	138.6
Long-term debt	**61.3**	—	—	—	—	—
Shareholders' equity	**588.6**	586.9	581.7	433.0	266.7	138.2

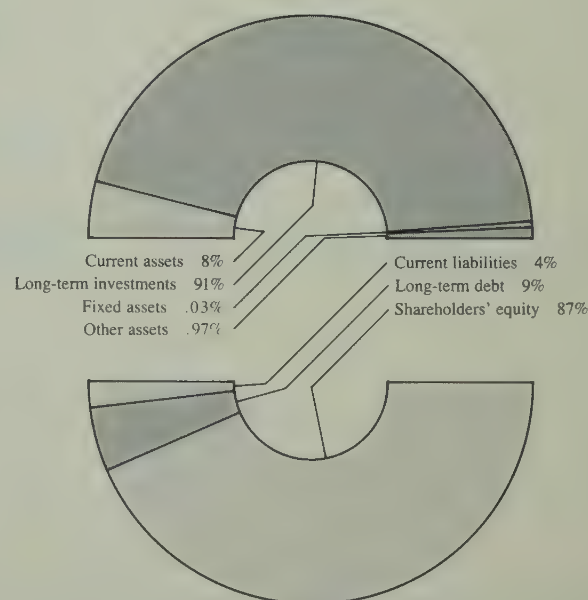
CDC's own operations consist of participation in the strategy development and long-term planning of its underlying companies; in reviewing and monitoring their progress; of seeking out and appraising potential new investments; and of securing the financial resources required to realize its investment program.

The increase in revenues to $29.1 million was chiefly from dividends on the Texasgulf preferred shares purchased in December 1976. The increase in interest expense reflects the issue of U.S. $60 million of income debentures in February 1977. Net income declined to $20.4 million in 1977 from $21.5 million in the previous year, the major cause being the $2 million write-off of our investment in Canadian Arctic Gas Study Limited.

The income debentures, referred to above, have a seven-year term and bear interest at five percent for the first five years and at a floating rate, based on a formula related to the U.S. dollar lending rate of a Canadian chartered bank, for the last two years. Of the proceeds, $40 million was invested in Polysar, $575,000 in CanWest Capital, and the remainder was added to the working capital of the Corporation, which increased by $4.2 million during the year.

Balance Sheet

	1977	1976
	(millions of dollars)	
Current assets	$ **54.6**	$ 39.8
Long-term investments	**618.6**	560.6
Fixed assets	**.2**	.1
Other assets	**3.8**	4.9
	$ **677.2**	$ 605.4
Current liabilities	$ **27.3**	$ 16.7
Long-term debt	**61.3**	—
Deferred income taxes	—	1.8
Shareholders' equity	**588.6**	586.9
	$ **677.2**	$ 605.4



Petrochemicals

Polysar Limited

Acquired July 1972	1977	1976	1975	1974	1973
			(millions of dollars)		
Revenues	**$ 577.0**	$ 457.6	$ 392.1	$ 392.4	$ 261.2
Cost of Sales	**478.9**	381.9	328.2	300.0	212.2
Selling, administration and research	**58.2**	46.1	43.3	38.5	25.2
Interest expense	**21.0**	14.9	15.2	14.3	7.1
Taxes, minority interest, other	**4.5**	7.2	3.8	21.5	5.6
Net income	**14.4**	7.5	1.6	18.1	11.1
Cash flow	**41.6**	28.0	23.2	45.6	30.5
Working capital	**99.1**	77.8	91.2	84.4	77.3
Fixed assets (net)	**222.8**	207.3	150.4	133.0	138.3
Total assets	**646.4**	530.5	415.5	398.0	341.5
Long-term debt	**191.8**	160.6	97.1	99.1	112.7
Shareholders' equity	**255.9**	211.4	197.8	150.6	135.0

Polysar's major products are synthetic rubber, latex, thermoplastic resins and basic materials for the chemical industry. As well as its operations in Sarnia, the company has manufacturing subsidiaries in Canada, Europe and the United States. It is the largest shareholder, with a 40% interest, in Petrosar.

Financial Summary

Consolidated net income of $14.4 million for 1977 was the second highest in the company's history. Consolidated revenue of $577 million was 26 per cent greater than in 1976.

Demand for Polysar's products was stronger in 1977 due to a modest improvement in economic conditions in the industrialized nations. Volume increases were achieved in the major product lines and in most market areas, the bulk of the improvement in the first half.

Contribution from the rubber business increased over the previous year. Western European demand was particularly strong in the first half, but North American sales were somewhat below expectations.

Despite sluggish overall market growth, the latex business achieved improved profits and market share, although its earnings level remains disappointing.

In chemicals and resins volume gains were recorded while prices and profits were constrained by continued world styrenics overcapacity.

Balance Sheet

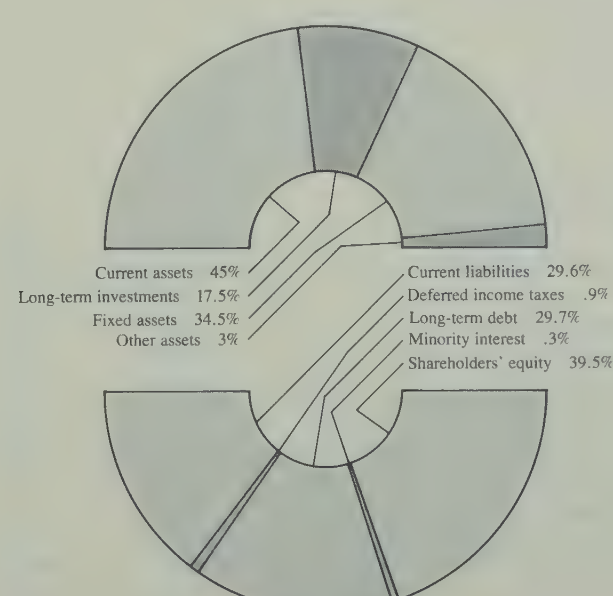
	1977	1976
	(millions of dollars)	
Current assets	**$ 290.4**	$ 233.1
Long-term investments	**113.1**	70.3
Fixed assets	**222.8**	207.3
Other assets	**20.1**	19.8
	$ 646.4	$ 530.5
Current liabilities	**$ 191.3**	$ 155.3
Long-term debt	**191.8**	160.6
Deferred income taxes	**5.7**	2.6
Minority interest	**1.7**	.6
Shareholders' equity	**255.9**	211.4
	$ 646.4	$ 530.5

In contrast to the previous year, 1977 earnings were favourably affected by currency factors. In addition to exchange earnings realized, a gain resulted from translation of the financial statements of the company's foreign operations.

Investment Program

Capital expenditures in 1977 amounted to $43.1 million, exclusive of the investment in Petrosar, a level considerably less than the $76 million of the previous year.

The company's investment in Petrosar increased by $33.6 million, bringing the total investment to $88.6 million.



Petrochemicals

Petrosar Limited

	1977	1976	1975	1974
Construction commenced in 1974. Start-up April 1977	*(millions of dollars)*			
Working capital	**$ (27.0)**	$ (14.6)	$ (18.2)	$ (8.6)
Fixed assets (net)	**571.2**	403.3	202.0	51.1
Total assets	**761.0**	433.4	209.5	56.0
Long-term debt	**556.0**	351.1	142.1	28.1
Shareholders' equity	**52.0**	52.0	45.5	15.5

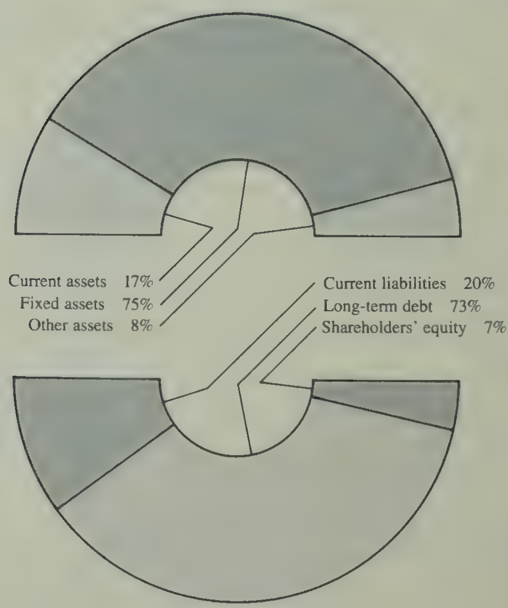
Petrosar's products consist of basic petrochemicals such as ethylene, propylene, and benzene, as well as gasoline, light and residual fuel oils. Production of gasoline and fuel oils began in April 1977, and the petrochemical production plant came on stream in early 1978.

Total capital requirements, covering plant, capitalized interest, pre-production expenditures and working capital, amount to over $700 million. In early 1978, construction having been completed, Petrosar refinanced its construction loans by the issue of $445 million term preferred shares, maturing over the period from 1979 to 1987, and carrying a floating dividend based on a formula related to bank prime lending rates.

Results of operations in 1978, after provision for dividends on preferred shares, are not expected to contribute to CDC's consolidated results.

Balance Sheet

	1977	1976
	(millions of dollars)	
Current assets	**$ 126.0**	$ 15.7
Fixed assets	**571.2**	403.3
Other assets	**63.8**	14.4
	$ 761.0	$ 433.4
Current liabilities	**$ 153.0**	$ 30.3
Long-term debt	**556.0**	351.1
Shareholders' equity	**52.0**	52.0
	$ 761.0	$ 433.4



Health Care

Connlab Holdings Limited

	1977	1976	1975	1974
Formed July 1973		*(millions of dollars)*		
Revenues	**$ 109.2**	$ 90.8	$ 83.6	$ 68.6
Cost of sales	**56.1**	47.7	44.8	36.6
Selling, administration and research	**45.2**	38.4	34.8	27.9
Interest expense	**4.4**	3.8	3.6	3.3
Taxes, minority interest, other	**4.8**	.5	2.1	1.2
Net income	**(1.3)**	.4	(1.7)	(.4)
Cash flow	**5.7**	3.7	1.4	3.1
Working capital	**13.1**	15.9	8.3	10.6
Fixed assets (net)	**40.1**	35.8	33.8	32.1
Total assets	**108.7**	101.3	89.8	82.7
Long-term debt	**16.1**	16.2	14.5	10.2
Shareholders' investment	**38.6**	39.9	32.5	34.2

Connlab is CDC's wholly-owned vehicle company for investments in the health care field. Its principal direct investments are Connaught Laboratories, Dumex, Omnimedic and Bio-Research. Connaught's products are vaccines for human and veterinary use, insulin, toxoids and blood fractions. Dumex, headquartered in Copenhagen, Denmark, and Omnimedic, of Montreal, Quebec, produce pharmaceuticals; Dumex also produces milk replacers for farm animals, antibiotic feed grains and basic chemicals. Bio-Research is engaged in contract research work for Canadian and U.S. food, and pharmaceutical producers.

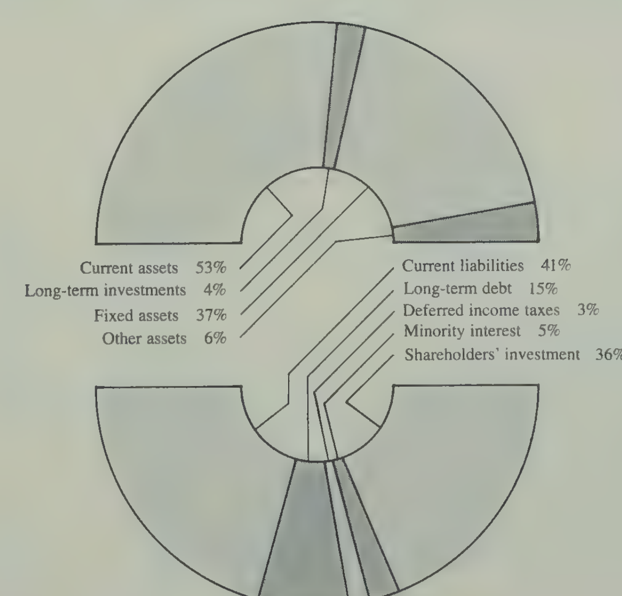
Financial Summary

Connlab's consolidated revenues increased by 20% over those of 1976, with the most significant increase occuring in the pharmaceutical area. While the company recorded a $1.3 million loss in 1977 compared with a $400,000 profit in 1976, this loss included a provision of some $2.0 million for unsuccessful ventures in Mexico and Brazil. On the operating side, the negative contribution from biologicals of $2.5 million was largely offset by the $2.3 million contribution from pharmaceuticals and life sciences; income from short-term investments contributed a further $900,000.

Working capital remained strong at $13.1 million. Capital expenditures totalled $7.6 million in 1977 compared with $6.7 million in 1976.

Balance Sheet

	1977	1976
	(millions of dollars)	
Current assets	**$ 58.0**	$ 53.5
Long-term investments	**4.1**	5.6
Fixed assets	**40.1**	35.8
Other assets	**6.5**	6.4
	$ 108.7	$ 101.3
Current liabilities	**$ 44.9**	$ 37.6
Long-term debt	**16.1**	16.2
Deferred income taxes	**3.6**	3.0
Minority interest	**5.5**	4.6
Shareholders' investment	**38.6**	39.9
	$ 108.7	$ 101.3



Oil and Gas

CDC Oil & Gas Limited

	1977	1976
Acquired December 1975	*(millions of dollars)*	
Revenues	**$ 35.3**	$ 26.5
Cost of sales	**12.6**	10.0
Selling, administration and research	**1.0**	1.0
Interest expense	**2.4**	2.1
Taxes, minority interest, other	**7.1**	4.7
Net income	**12.2**	8.7
Cash flow	**25.4**	18.3
Working capital	**(44.7)**	5.4
Fixed assets (net)	**142.6**	77.8
Total assets	**151.9**	86.1
Long-term debt	**20.0**	20.0
Shareholders' equity	**65.5**	57.8

CDC Oil & Gas is based in Calgary and is engaged in the exploration and production of crude oil, natural gas and natural gas liquids. It also holds a 51% working interest in a 50,000 acre bituminous tar sands lease located 40 miles northeast of Fort McMurray, Alberta. CDC Oil & Gas has an interest in gas producing properties in Louisiana and exploration programs in the Beaufort Sea, McKenzie Delta and off the south coast of England.

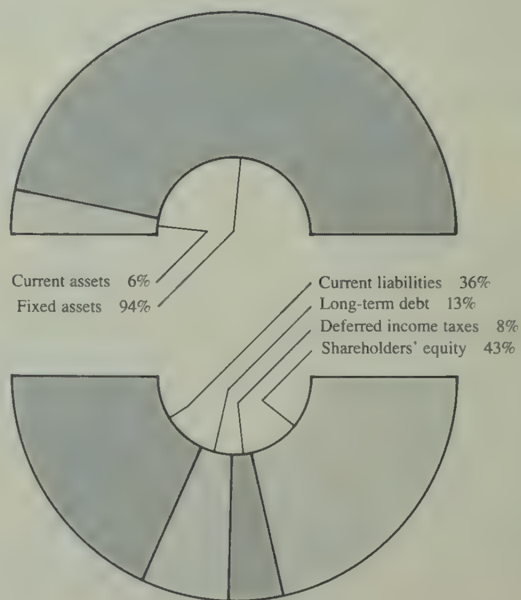
Financial Summary

Consolidated net income in 1977 rose to $12.2 million from $8.7 million in 1976. Gross revenues of $35.3 million were 32% higher than in 1976. Cash flow increased $7.1 million to $25.4 million in the same period. Exploration expenditures tripled to more than $16 million in 1977.

In October 1977, CDC Oil & Gas completed the purchase of a 25% working interest in a 27,000 acre tract located in Louisiana. The company paid U.S. $45 million for the tract and expects the project to be self-financing. At December 31, 1977, the interim bank loan obtained for the purchase was included in short-term debt and consequently CDC Oil & Gas had a working capital deficiency. The company expects this debt to be refinanced by the end of 1978.

Balance Sheet

	1977	1976
	(millions of dollars)	
Current assets	**$ 9.3**	$ 8.3
Fixed assets	**142.6**	77.8
	$ 151.9	$ 86.1
Current liabilities	**$ 54.0**	$ 2.8
Long-term debt	**20.0**	20.0
Deferred income taxes	**12.4**	5.5
Shareholders' equity	**65.5**	57.8
	$ 151.9	$ 86.1



Mining

Texasgulf Inc.

	1977	1976	1975	1974
Interest acquired October 1973		*(millions of U.S. dollars)*		
Revenues	**$ 491.1**	$ 490.6	$ 461.6	$ 583.8
Cost of sales	**375.8**	342.8	277.7	286.9
Selling, administration and research	**24.0**	25.8	16.1	18.7
Interest expense	**27.0**	27.0	14.0	14.4
Taxes and other	**18.0**	34.2	60.1	120.1
Net income	**46.3**	60.8	93.7	143.7
Cash flow	**88.8**	114.7	174.4	216.6
Working capital	**249.8**	247.9	180.4	184.1
Fixed assets (net)	**997.5**	888.6	139.5	74.1
Total assets	**1,477.9**	1,315.4	1,100.7	939.5
Long-term debt	**366.6**	266.2	227.9	134.7
Shareholders' equity	**752.1**	750.2	576.8	517.6

Texasgulf's principal products are base metals, agricultural and industrial chemicals, and oil and gas. Base metals consist principally of zinc and copper from the Kidd Creek mine in Ontario, which is also a producer of silver and lead. Agricultural chemicals are produced from a phosphate mine in North Carolina and potash mines in Utah and Saskatchewan. Industrial chemicals consist of soda ash, produced in Wyoming, and sulphur, produced in the United States, Mexico and Canada. Oil and gas are produced in Canada, the United States and the Gulf of Mexico.

Financial Summary

Total revenues for 1977 failed to achieve the levels anticipated early in the year, but were still the second highest in company history, U.S. $491.1 million. Earnings were disappointing, declining to U.S. $46.3 million, the result of significantly lower unit sales volume in metals together with lower metals prices, lower phosphate volumes, and generally higher unit operating costs. CDC's share of these earnings, after amortization of purchase price discrepancy, was $10.9 million.

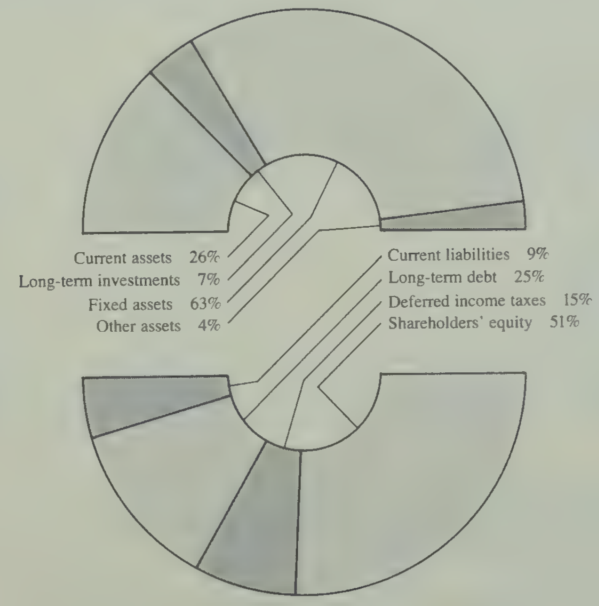
Worldwide zinc and copper consumption increased during the year, but prices remained depressed due to continued excess inventories.

The company's financial position was strengthened in November with the public offering of a U.S. $150 million issue of 8½% debentures due 2002. The proceeds of this issue were used to repay outstanding indebtedness under a bank credit and term loan agreement, thus extending outstanding debt maturities at lower effective borrowing costs. Debt ratios increased slightly due to continued high borrowing requirements for capital programs. However, the ratios continue to be among the more conservative in the natural resources industry. Long-term debt was 32.8% of total capitalization at year-end.

Total assets of the corporation were U.S. $1.48 billion at year-end. Working capital increased to U.S. $249.8 million, resulting in a current ratio of 2.9 to 1. Product inventories increased 21.2% to U.S. $233.4 million, primarily attributable to increases in copper, zinc and sulphur inventories.

Balance Sheet

	1977	1976
	(millions of U.S. dollars)	
Current assets	**$ 381.6**	$ 337.4
Long-term investments	**98.8**	89.4
Fixed assets	**937.9**	842.0
Other assets	**59.6**	46.6
	$ 1,477.9	$ 1,315.4
Current liabilities	**$ 131.8**	$ 89.5
Long-term debt	**366.6**	266.2
Deferred income taxes	**227.4**	209.5
Shareholders' equity	**752.1**	750.2
	$ 1,477.9	$ 1,315.4



CDC Share Data

CLASS A PREFERRED SHARES

Outstanding
10,000,000 shares of a par value of $10 each.

Distribution
Held by 18 institutional and industrial enterprises.

Dividend Dates
A dividend at the rate of 5¾% per annum is payable quarterly on the first of January, April, July and October.

Transfer Agent and Registrar
The Corporation at its Vancouver and Toronto offices.

CLASS B PREFERRED SHARES

Outstanding
1,447,803 shares of a par value of $100 each.

Distribution

Location	Shareholders Number	Shareholders %	Shares Number	Shares %
British Columbia	2,475	15.7	132,753	9.1
Alberta	1,323	8.4	84,896	5.8
Saskatchewan	646	4.1	26,016	1.8
Manitoba	560	3.5	35,459	2.4
Ontario	8,377	53.8	925,455	64.4
Quebec	1,295	8.2	202,887	14.0
New Brunswick	376	2.4	15,630	1.0
Nova Scotia	435	2.7	16,824	1.1
Prince Edward Island	80	.5	2.754	.2
Newfoundland	59	.3	2,510	.1
Territories	20	.1	458	—
Outside Canada	66	.3	2,161	.1
Total:	**15,712**	**100%**	**1,447,803**	**100%**

It is estimated that shares held in the name of trust companies, brokers or other nominees represent holdings by an additional 2,800 beneficial shareholders.

Size of Holding

Number of Shares Owned	Number of Shareholders	%
1- 49	11,538	73.4
50- 99	2,085	13.4
100-199	1,364	8.7
200-299	379	2.4
300-399	94	0.6
400-499	45	0.2
Over 500	207	1.3
Total:	**15,712**	**100%**

Dividend Dates
A dividend of $2.00 per share is payable quarterly on the first of January, April, July, and October.

CLASS B PREFERRED SHARES (cont'd.)

Dividend Reinvestment Plan
To facilitate the acquisition of additional Class B preferred shares at a low cost, the Corporation has instituted for its shareholders a dividend reinvestment plan which is administered by the transfer agent, National Trust Company, Limited. By the end of 1977, 2,766 shareholders were participating in the plan, representing 17.3% of all shareholders. Participants may add voluntary cash contributions to their dividends to increase their purchase.

Bonus Common Shares and Conversion
Each Class B preferred share may be converted at any time at the option of the holder into ten common shares. On conversion, the holder receives immediate delivery of the bonus common shares.

Listings (Ticker symbol: CDC Pr B)
Vancouver Stock Exchange
Alberta Stock Exchange
The Winnipeg Stock Exchange
The Toronto Stock Exchange
Montreal Stock Exchange

Trading
During the year, 279,227 Class B preferred shares were traded on the stock exchanges. Prices fluctuated as follows on The Toronto Stock Exchange:

	High	Low	Close
1st quarter	102½	99¾	102
2nd quarter	105¼	101⅞	104¾
3rd quarter	106½	104¼	105½
4th quarter	105¾	103⅜	105
1976	101	95¼	100

Transfer Agent and Registrar
National Trust Company, Limited at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal, and by its duly appointed agent, The Royal Trust Company, at its principal offices in Regina, Saint John, Charlottetown, Halifax and St. John's.

COMMON SHARES

Outstanding
30,712,158 shares without par value.

Distribution
Held by 30 registered shareholders.

Dividends
The Corporation has not paid dividends on its common shares since their issuance.

Transfer Agent and Registrar
National Trust Company, Limited at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal, and by its duly appointed agent, The Royal Trust Company, at its principal offices in Regina, Saint John, Charlottetown, Halifax and St. John's.

LITHO'D IN CANADA
AGENCY PRESS LIMITED

CDC

canada development corporation

1977 first half report

2272 granville square, 200 granville street, vancouver, b.c. V6C 1S4

To Our Shareholders:

Revenue and net income for the second quarter of 1977 were significantly higher than in the same period of 1976. In relation to the first quarter, revenues increased by $7 million and earnings were up by $400 thousand. The results of the second quarter were due primarily to a strong performance by Polysar and by CDC Oil & Gas. Continuing softness in base metal prices resulted in a lower contribution from Texasgulf. Venture capital results were stable and those of the health care group made a worthwhile improvement in both the quarter and the six months.

Revenues for the three months ended June 30 were $179 million, 30 percent above the second quarter of last year. Net income for the quarter was $8.8 million, 22 percent above the $7.2 million recorded in the second quarter of last year. After payment of preferred dividends of $4.3 million, net income per common share was $0.15, up $0.09 per share from second quarter 1976.

Revenue for the first half of the year was $351.9 million, 26 percent above the first half of 1976. Net income for the period was $17.2 million, 7 percent above the first half of last year; net income per common share, after payment of $8.6 million in preferred dividends, was $0.28 against $0.24 in the same period of 1976.

Corporate assets grew by $82 million during the quarter to bring the total at June 30 to $1,799 million, reflecting the continuing capital investments in major projects, especially petrochemicals. Working capital position remained strong at $127 million, down $12 million from the first quarter, but up $37 million since the end of last year.

The third quarter is normally the Corporation's slowest for

(Continued on page 2)

Consolidated Operating Results

	Three Months Ended June 30			Six Months Ended June 30		
	1977	1976	% Change	1977	1976	% Change
	($ millions)			($ millions)		
Gross revenues	$179.0	$137.2	+30	$351.9	$280.1	+26
Equity in earnings of other companies	3.3	5.6	−41	6.5	9.1	−29
	182.3	142.8	+28	358.4	289.2	+24
Less operating expenses, minority interest and translation effects	168.1	131.3	+28	330.0	265.0	+25
Income before income taxes	14.2	11.5	+23	28.4	24.2	+17
Income taxes	5.4	4.3	+26	11.2	8.1	+38
Net income for the period	8.8	7.2	+55	17.2	16.1	+ 7
Preferred dividends	4.3	4.3	—	8.7	8.6	+ 1
Income available for common shareholders	$ 4.5	$ 2.9	+22	$ 8.5	$ 7.5	+13
Net income per common share	$ 0.15	$ 0.09		$ 0.28	$ 0.24	

The effect of conversion of the Class B preferred shares would not have a dilutive effect on the earnings per common share.

Consolidated Balance Sheet

	June 30, 1977	December 31, 1976
	($ millions)	
Assets		
Current Assets	$ 447	$ 365
Investments	416	405
Fixed Assets (net)	876	765
Other Assets	60	57
	$1,799	$1,592
Liabilities and Shareholders' Equity		
Current Liabilities	$ 320	$ 275
Long-Term Debt, less current maturities	592	472
Deferred Income Taxes	33	28
Interests of Minority Shareholders		
Subordinated Debentures of Subsidiaries	55	27
Equity in Subsidiaries	77	76
	1,077	878
Shareholders' Equity	722	714
	$1,799	$1,592

Interim financial information is unaudited.

This report has been printed in both English and French. You may obtain a copy in either language, as you prefer, upon request to the Secretary of the Corporation.
Ce rapport a été publié en français et en anglais. Vous pouvez obtenir un exemplaire dans la langue de votre choix sur demande au secrétaire de la Corporation.

Where CDC's Funds Came From and What We Did With Them

The table at right, showing consolidated changes in CDC's financial position, is published twice yearly to show where CDC obtained the funds to carry out its activities and how the funds were used.

Known as a "funds statement", the table shows cash generated from operations, the most important continuing source of funds for the Corporation, totalling $43 million in the first half of 1977, an increase of $9 million over the same period of 1976. This number includes net profit and non-cash charges such as depreciation and depletion allowances, which are really funds set aside to replace existing assets as they become obsolete or worn out.

Minority shareholders in companies in the CDC group, such as Petrosar, increased their investment in those companies by $28 million in the first half of the year.

No additional cash was received from the preferred share issue, the remaining instalment purchase plan payments having been received during 1976. The final source came from borrowing by CDC and its subsidiary companies; $127 million was raised through debt issues.

These funds, totalling nearly $200 million, were used primarily to build or acquire new fixed assets. Some $129 million was spent for these purposes, much of it on construction at the Petrosar plant. Funds were also used, as shown in the table, to pay dividends to CDC's preferred shareholders, to repay previous borrowings, and for such things as long-term receivables and deferred development costs.

As more funds were received during the period than were spent, CDC's working capital increased significantly.

Statement of Consolidated Changes in Financial Position

	Six Months Ended June 30 1977	1976
	($ millions)	
Funds were provided from:		
Operations	$ 43	$ 34
Investment by minority shareholders	28	3
Issue of CDC preferred shares		2
Proceeds from long-term debt	127	132
	$198	$171
Funds were used for:		
Additions to fixed assets	$129	$140
Repayment of long-term debt	7	18
Dividends on CDC preferred shares	8	9
Dividends to minority shareholders	2	2
Other	15	11
	161	180
Increase (decrease) in working capital	$ 37	$ (9)

Interim financial information is unaudited.

First Half Report (continued from page 1)

seasonal reasons. When combined with the impact of further weakness in base metal prices and a moderate slowing of the pace of North American economic recovery, income in the current period is unlikely to attain the levels recorded in each of the first two quarters. Moreover, while the new petrochemical projects coming on stream in the second half will be a major benefit to earnings in future years, their initial effect will be to depress reported earnings. Nevertheless, the progress being made in building the basic earning power of the Corporation should cause results for the year as a whole to be moderately above those achieved in 1976.

Two CDC Sound Slide Presentations are available to shareholders for group showing:

CDC – 76,
Questions & Answers – 1977.

For details, please contact:
Ken Grant,
Communications Officer,
Suite 2272 – 200 Granville Street,
Vancouver, B.C. V6C 1S4

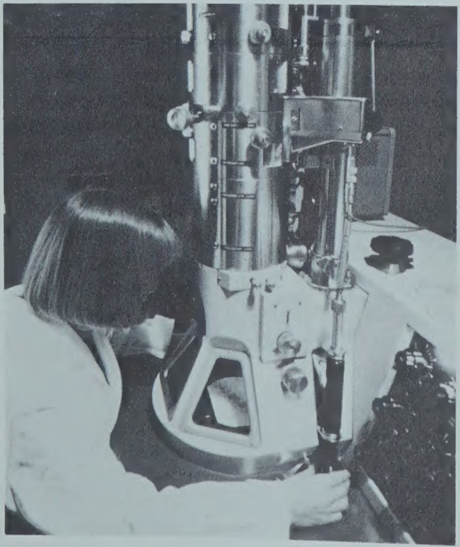
Focus on CDC Companies' R & D Projects

In response to a shareholder's question at the '77 Annual Meeting.

Investing in research and development of new processes and products is essentially an investment in the future, and companies in the CDC group will this year invest more than $21 million in a wide variety of research and development projects.

Most of the CDC companies undertake some research and development activity, but by far the largest programs are in the Connlab health care group and in the rubber, latex and plastic product areas of Polysar.

During 1977, Polysar will spend nearly $12 million on some 70 different research and development projects. These are grouped into four main categories, including work to support and improve existing product lines, improvements in existing processes, conservation of energy and materials at the various plant sites, and development of new product lines and applications.

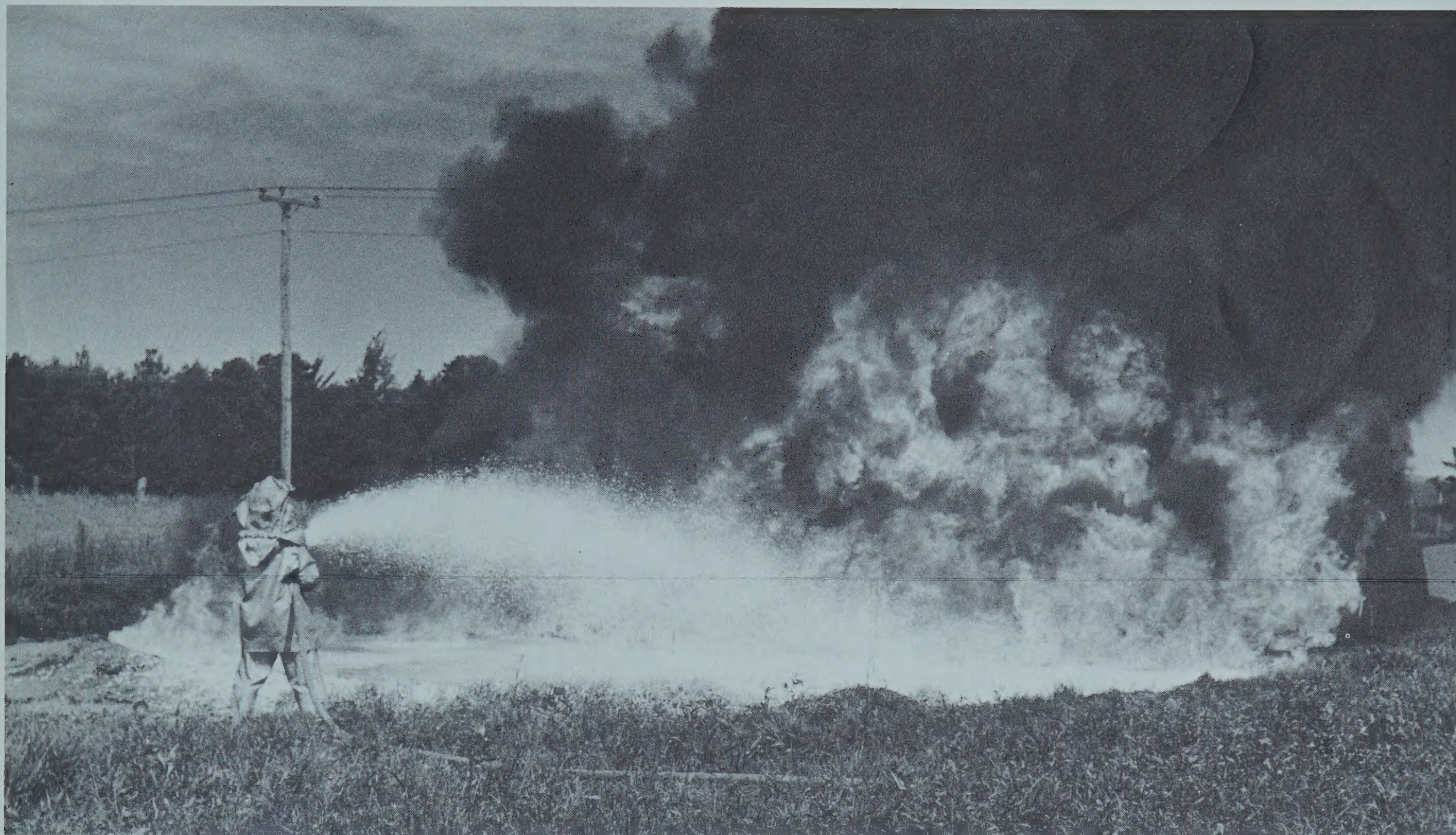


Research and development programs are continuing on over 100 projects in CDC's underlying companies.

The largest portion of the Connlab group research and development expenditures, which will total some $6.3 million this year, is concentrated in Connaught Laboratories. Main emphasis there this year will be on developing vaccines in the measles, rubella (German measles) and mumps project. Another active project is the islets research program, involving seeding and transplant of islets of Langerhans, the areas in the pancreas that produce insulin. Significant projects are also underway to develop new vaccines to protect against rabies in humans and animals and in new bacterial vaccines to protect against tetanus and whooping cough.

Venture capital companies in the CDC group will spend approximately $3 million this year on a wide variety of projects. These include development of a new generation model of AES Data's word processing unit; developing a new line of products related to energy conservation in commercial buildings; research into new sensor techniques and applications in industrial monitoring systems; development of new foam products for fire control (see Laurentian Concentrates story on page 3); and a host of other potentially valuable projects.

This year's total research and development spending will be some $4 million above last year's total of $17 million, and does not include the several millions of dollars spent on exploration and development by CDC's mining and petroleum companies. An additional $2 million plus will be invested by Texasgulf on new product development.



Testing of Laurentian's aqueous film forming foam on an oil fire at their Thurso, Quebec, fire test facilities.

It's Hard to Douse Initiative

A rapidly growing chemical company – Laurentian Concentrates Limited – stands today as a thriving example of how to put venture capital to work.

Laurentian Concentrates was formed in 1962 to produce foaming compounds used in extinguishing and preventing oil-based fires. Before that time, all such foaming compounds were imported into Canada.

The company quickly developed good quality products and soon obtained the endorsement of various Federal Government agencies, which are the primary customers of the foaming compounds. But financially, the company could do little better than break even and did not generate enough revenue to permit the research and development activities needed to keep abreast of competitors in the industry. In an attempt to obtain sufficient financing, the controlling interest in the company was sold in the mid-1960's to an English company.

In 1972, the company's management faced two simultaneous challenges: a need to expand plant capacity significantly, and the opportunity to buy back the non-resident, inactive ownership interest.

The company approached Innocan Investments Limited, the Montreal-based venture capital company, 40 percent owned by Canada Development Corporation.

Innocan was impressed by the company's potential and agreed to provide equity capital. The General Adjustment Assistance Board of the Department of Industry, Trade and Commerce provided long-term debt insurance, which permitted the company to proceed with its plant expansion.

With these two sources of financial assistance, Laurentian once again became a Canadian-owned enterprise and was, for the first time in its corporate history, strong enough financially to compete effectively in its field.

Innocan's minority equity investment was conditional on Laurentian agreeing to strengthen its marketing capabilities and to tighten administrative procedures, especially in the areas of cost control and purchasing.

The results were dramatic. In the four years, 1972-1976, Laurentian doubled its sales volume and nearly quadrupled its net income. The company also developed and marketed new higher-grade products, and developed a strong export market. Export sales now account for approximately 45 percent of total sales volume.

When the company's founder retired in 1975, Innocan purchased his equity interest and became the major shareholder of Laurentian.

Early in 1977, Laurentian undertook another major expansion by purchasing the operating assets of Hand Chemical Industries Limited, an Ontario-based company that manufactures and distributes pyrotechnic products – the fireworks displays often seen at fairs and exhibitions.

In the next step, Laurentian acquired controlling interest in a small company that has developed a new starch-based resin for use in the paint industry. Laurentian now operates plants in Thurso and Papineauville in Quebec and in Milton, Ontario, and has a total work force of some 200 employees.

The results of these acquisitions and internal growth are expected to increase Laurentian's 1977 sales to $6 million, up from $2 million last year, with a resulting significant improvement in net income.

The strategy of Laurentian is to continue its pattern of internal growth and acquisition in order to become a more diversified specialty chemicals company.

Head Office Expands

The Head Office of Canada Development Corporation has been relocated in Suite 2272, Granville Square, Vancouver. The move into larger quarters combines offices that CDC previously occupied on the 18th and 20th floors.

The full mailing address and telephone number are –

Suite 2272, Granville Square
200 Granville Street
Vancouver, British Columbia V6C 1S4

(604) 682-0441

A Challenge to Meet the Man — Petrosar

Silas Smith has just about finished building himself out of a job.

Sometime early this fall, the 64-year-old president of Petrosar Limited will see his new $650 million refinery/petrochemical complex near Sarnia come into full production.

"Then," Smith smiles, "my work is essentially finished."

The quiet-spoken, hard-driving Petrosar chief arrived in Sarnia in March 1974, on loan from Union Carbide. In the later stages of his 38-year career there, as an Executive Vice President of the Chemicals and Plastics Group, he had supervised engineering construction and start-up of a new refinery complex in Ponce, Puerto Rico. That experience made him a natural for Petrosar. But in Sarnia, his new company was not even incorporated yet and his task was to translate into reality the concept of a world-scale petrochemical presence for Canada.

From his perspective, the challenge was relatively simple: he had four years before retirement and he was determined to have the plant up and operating within that time.

He started with only a handful of staff, some detailed construction plans, and the knowledge that Petrosar's shareholders – Polysar Limited, Du Pont of Canada Limited, Union Carbide Limited, and Canada Development Corporation – had the necessary financial resources to build the project. His first big task was to recruit and develop a management team, following the "hire Canadians only" policy that was in effect from the beginning. By the end of 1975, he had filled the 15 key management slots and the success with which he met that first challenge is evident today.

"The quality of management here is as good as anywhere in the world," he says with quiet pride.

Construction on the 425-acre plant site started in July 1974 – and the headaches commenced at the same time. The biggest one was a shortage of skilled tradesmen in Canada.

"Fortunately," says Smith, "the Federal Government recognized our problem and allowed us to hire some foreign workers. But we had to meet two conditions: that we provide accommodation for them, and that we organize our own welding school and hire its graduates to work on the project."

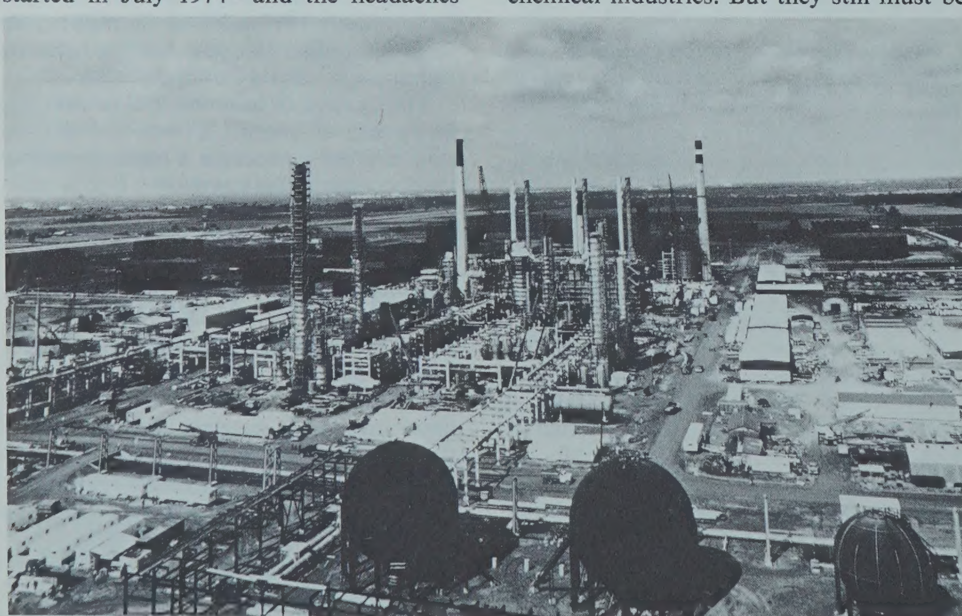
During the busiest construction period, some 3,000 people were at work on the site. About 800 of them were non-Canadian workers, recruited through advertisements in Britain and the U.S.

Despite Smith's constant determination to keep the project on or ahead of schedule, some delays were inevitable, especially during the early stages when labour shortages plagued the project. But by the end of July, 96 percent of the plant was completed and all of it will be operational within a few weeks – "if nothing unexpected happens."

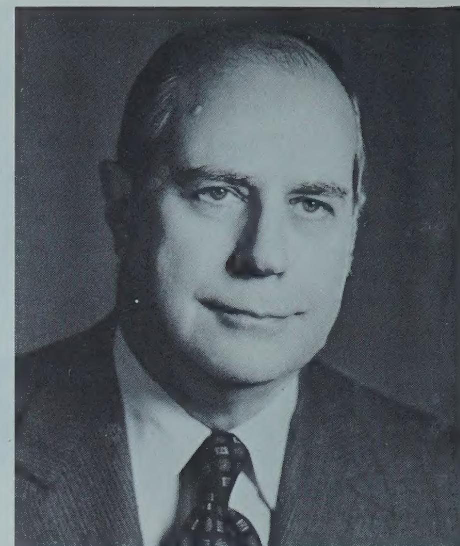
Smith admits to great personal and professional satisfaction at having directed the task of bringing this enormously complex project together. But even more satisfying is the number of significant economic benefits that Petrosar will generate for Canada:

- 525 new jobs within the plant itself;
- 8,000 to 10,000 new jobs in the chemicals, plastics, and related industries in Canada;
- a potential $1.6 billion contribution by 1980 to Canada's balance of trade by reducing imports and/or creating exports of chemicals and their products.

Training of the new operating work force has been almost a never-ending task for Smith and his management team. Virtually all of Petrosar's permanent employees have experience in the refining and/or petrochemical industries. But they still must be



After four and a half years of planning and construction the 425-acre Petrosar development nears completion.



Silas Smith, President of Petrosar.

trained in the specific operations that they will perform when the plant is in full production. Training for all new employees begins with a two-day orientation program, including sessions on how the company is structured, how the plant site is organized, and so on. Then come more detailed sessions on specific operations, some of the more highly technical ones involving simulation models. And there are maintenance training programs, safety procedures training, and many other specific-function courses.

Supervisory personnel are given intensive training to broaden and sharpen managerial skills. Silas Smith believes strongly in the "team form of management", and conducts a two-day course himself, teaching supervisors how they can increase their contributions to the team effort.

"We've been training, training, and training some more", Smith smiles, "and it should pay off in a smooth transition to full operation after all of the construction has been completed."

The plant is composed of three main process areas: (1) the crude oil unit, (2) the olefins unit, and (3) gasoline treating and aromatics unit. It is expected that all units will reach maximum planned capacity by the beginning of 1980 and that the total value of production in that year will reach $1.1 billion.

The crude oil processing unit is already in partial production and the olefins unit and the gasoline blending and aromatics unit are expected to begin producing in October.

And when his work is finished at Petrosar, what does the future hold for Silas Smith?

"You know," he says thoughtfully, "I just haven't had much time even to think about that. I'm due to retire at the end of this year and I don't have any real plans yet. I'm sure that something interesting will develop."

Those who have worked with this vital, genial man are quick to bet that it won't be an idle something.